SCHOOL OF TECHNOLOGY

AN EVALUATION OF CONTRACTING OUT GOVERNMENT SERVICES IN A PRIVATISATION CONTEXT IN THE SULTANATE OF OMAN

BY

MOHAMMED NASSER AL-ZA'ABI

Supervised by: Dr. Jeff Jones

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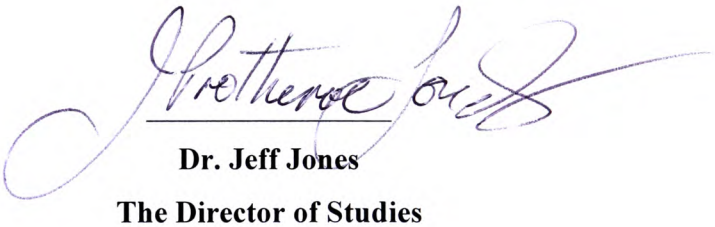
DECLARATION

It is hereby declared that this research is the result of the author developing a significant topic within his professional work. The research work is based on the author's comprehensive library and field work coupled with the author's extensive experience with "Contracting Out" in his organisation. Except where specific reference is made, the work described in this study is the result of the author's research. The author confirms that this thesis, nor any part of it, has been presented, or is currently submitted, in candidature for PhD degree at any other University.

Mohammed Nasser Ali Al-Za'abi

The Author

Date 02 December 2004



Dr. Jeff Jones

The Director of Studies

Date 2/06/05

DEDICATIONS

To my mother and father, whose worm prayers have been a major morale boost and encouragement for the completion of this research.

To my Brother Ali Bin Nasser, for his support and sacrifice to make it possible for me to complete this research.

To the true meaning of sacrifice, to my wife and children, for their patience during the years of study.

To all my brothers and sisters, and all members of the Al-Za'abi Tribe, for their encouragement and prayers.

To my beloved country, Oman.

ABSTRACT

"Contracting out" government services, as a method of privatisation, has been extensively used in Oman since 1979. The author's organisation has adopted it since 1993 in response to the challenges it faces in providing the operation and maintenance services required by its clients.

This study evaluates the "Contracting Out" experience at the author's organisation. It looks at the motivating factors, implementation difficulties and the overall effectiveness of contracted out projects in achieving the organisation's objectives in terms of the anticipated benefits.

The research is carried out by means of an exploratory stage to arrive at the motivating reasons for "Contracting Out" followed by three in-depth case studies of "Contracting Out" projects implemented under the organisation's privatisation initiative. The author's extensive experience with the process together with documentation review, semi-structured interviews, and comparisons of before and after "Contracting Out" data were used to evaluate the initiative outcomes.

The results show that the main motivating reason for considering "Contracting Out", amongst other reasons, was the need to affect savings in the organisation's current operating costs. Many of the problems associated with implementing "Contracting Out" projects were as a direct result of the lack of transparency and clarity in the procedures for the different stages of projects implementation.

The conclusion of the research is that "Contracting Out" the organisation's in-house services has been effective in meeting its objectives, especially the cost saving element, which addresses its main motivating factor. The success of "Contracting Out" projects is found to be largely dependant on how effective the change from in-house provision to private sector provision is managed.

The research has shown that there is room for improving the present "Contracting Out" procedures and systems at the organisation, which can lead to improved management of the process. Recommendations are put forward to achieve these improvements.

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First and foremost the author wishes to thank Allah (the almighty) for his blessings and for giving him the strength to finish this work.

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ABBREVIATIONS

A/C	Air-conditioning.
BOO	Build Own Operate.
BOOT	Build Own/ Operate Transfer.
BOT	Build Operate Transfer.
CEO	Chief Executive Officer.
CV	Curriculum Vita.
DBFO	Design Build Finance Operate.
DOE	Department of Environment.
ESCWA	Economic and Social Commission for Western Asia.
GDP	Gross Domestic Product.
HM	His Majesty.
IMF	International Monetary Fund.
Km	Kilometer.
LNG	Liquefied Natural Gas.
LSI	Langelier Saturated Index.
MNWs	Minor New Works.
MRAH	Maintenance of Roads, Airstrips and Helipads.
MSB&C	Maintenance Services for Buildings and Civil Works.
MW	Megawatt.
O & M	Operation and Maintenance.
OECD	Organsiation for Economic Co-operation and Development.
PPM	Planned Preventive Maintenance.
RDs	Repair Demands.
RO Plant	Reverse Osmoses Plant.
RO	Rials Omani = US$ 2.6.
SOEs	Sale of Government Owned Establishments.
STP	Sewage Treatment Plant.
TSE	Treated Sewage Effluent.
US$	United States Dollar.
YR	Year.

PART A

A SYSTEMATIC REVIEW OF CONTEXTUAL AND MANAGERIAL ISSUES

CHAPTER 1

INTRODUCTION TO THE STUDY

Chapter 1

INTRODUCTION TO THE STUDY

1.0 General

Privatisation in its varying forms has witnessed an increasing usage over the last two decades. 'Contracting Out' government in-house services is one form of privatisation that has been widely used world-wide. Budgetary constraints and tightened government spending meant that both developed and developing countries had to look for more innovative mechanisms for procuring and financing much needed services and infrastructure projects.

The concept of privatisation has, in the past two decades, received the interest of the Omani Government as a means to resolve its budgetary constraints and to develop the country's private sector. The first privatisation attempts were officially made in the early 1990s when the government sold its shares in some of the public holding companies following the Sale of Government Owned Establishments (SOEs) method of privatisation. In addition, in 1994 the government embarked on its first infrastructure privatisation project (Manah Power Plant), following the Build-Own/Operate-Transfer (BOT) concept of project financing. Building on the experience gained from the success of Manah Power project, concessions for several other privately funded infrastructure projects have been pursued.

Prior to the above two developments, as early as 1979, the government has implemented a program of transferring selected public services to the private sector.

1.1 Background to the Study

Privatisation represents an important feature of economic and development policy in the Sultanate of Oman (Al-Za'abi, 1996). The literature on privatisation in Oman refers mainly to the sale of government owned establishments (SOEs) and infrastructure privatisation through the BOT model as the two dominant privatisation methods (Edmonds, 1996; Economic and Social Commission for Western Asia, 1998; Shaikh, 1999).

There is little reference to 'Contracting Out' government services in Oman in the literature despite the fact that the process has been widely used for quite some time. The

only two pieces of literature found, which refer to it very briefly, are Azzam (1995) and Al-Maawali (2002). According to Azzam the public services that have been transferred to private operations include cleaning contracts, billing and collection for water and electricity, and maintenance and operating contracts for water and power facilities. This, therefore, highlights the need for a comprehensive study on 'Contracting Out' in Oman in order to provide an evaluation of the process and its effectiveness in delivering government services and achieving its objectives.

The privatisation efforts at the author's organisation have so far been in the 'Contracting Out' context only. Since 1993 the organisation has been 'Contracting Out' its in-house services in light of the challenges it faces in providing the necessary support services to its clients. The 'Contracting Out' of the author's organisation in-house services represents an important strategy in its efforts to cut operating costs and raise the efficiency of its facilities and hence improve the quality of services it provides to its clients. The approximate current contract values of the in-house services contracted out to date are in access of US$18m and those that are currently being studied amount to approximately US$12m, which represents a considerable investment bearing in mind that major units of the organisation are affected. In addition, the number of in-house staff replaced by contractors will shortly exceed 15% of the organisation's total manpower strength. Figure 1.1 illustrates the organisation's in-house services so far contracted out expressed as a percentage of the total value of present 'Contracting Out' contracts.

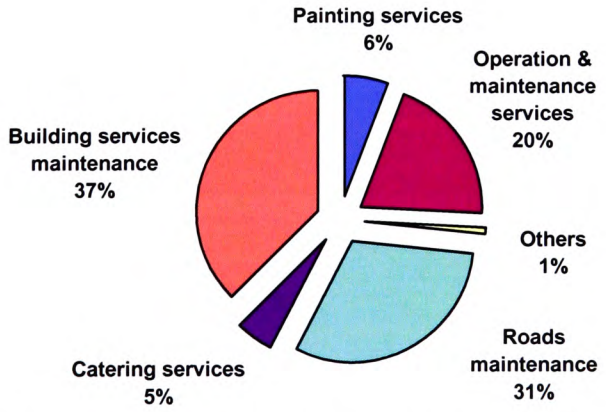

Figure1.1 The Organisation's in-house services so far contracted out

Other services under study for possibility of 'Contracting Out' include O & M services for two major existing camps, one major new camp under construction and a recently completed prestigious beach club. The O & M services of the latter have already been contracted out.

Despite the potential opportunities created by this scale of 'Contracting Out', in the context of privatisation, the concept is a new one in the organisation and no studies have so far been made on which any objective conclusion about its effectiveness could be based. A preliminary appraisal of some of the organisation's in-house services so far contracted out revealed that the procedures followed seem to obviate elements that lead to the achievement of main organisation's goals, such as cutting operating costs, improving efficiency and hence service quality. In addition, there seems to be a lack of accurate data on costing in-house services, lack of post evaluation in terms of benefits and expected cost savings, lack of clear procedures for monitoring contractor's performance, and lack of full appreciation of effects of 'Contracting Out' on employees currently providing the services in-house. These omissions together with the general lack of uniformity across all 'Contracting Out' projects highlight the need for this study, which can contribute, to a better understanding of the privatisation process through 'Contracting Out' and to the accrual of potential gains from such a process.

The theory developed by researchers in the field of 'Contracting Out' government services in other countries like the United States, the United Kingdom etc, as will be discussed in detail in the literature review at Chapters 2 and 3, would be used to assess the 'Contracting Out' system at the author's organisation in particular.

1.2 Aims and Objectives

This study aims to assess 'Contracting Out' projects at the author's organisation and evaluate their effectiveness in terms of achieving the organisation's objectives. The main objectives of the study are as follows:

i) **To establish the motivating reasons and perceived advantages/disadvantages for 'Contracting Out' the organisation's in-house services,**

ii) To assess the present 'Contracting Out' projects at the organisation in order to identify problems inherent in their implementation,

iii) To evaluate the effectiveness of the organisation's 'Contracting Out' projects,

iv) To identify lessons learnt and success factors of privatisation through 'Contracting Out',

v) To recommend improvements to the present 'Contracting Out' system and procedures at the organisation.

However, the following two objectives are complementary to the above main objectives of this research:

- To provide a general overview of 'Contracting Out' government services as a method of privatisation, and
- To provide a perspective on privatisation in the Sultanate of Oman in general and on 'Contracting Out' government services at the author's organisation in particular.

1.3 Research Hypotheses

In order to assess the organisation's 'Contracting Out' projects and evaluate their effectiveness the following main hypothesis has been devised based on the literature review explained in Chapters 2 and 3 and the findings from Stage 1 of the research on the motivating reasons and perceived advantages/disadvantages of "Contracting Out" discussed at Chapter 6:

'Contracting Out' the organisation's in-house services to private sector companies improves cost-effectiveness, efficiency and quality in service delivery.

This hypothesis is further subdivided into the following hypotheses:

Sub-hypothesis 1

The rational for 'Contracting Out' the organisation's in-house services, rests primarily on the anticipated cost savings.

Sub-hypothesis 2

Certain problems are inherent and identifiable in the implementation process of contracted out projects at the pre and post contract stages.

Sub-hypothesis 3

'Contracting Out' the organisation's in-house services reduces operating costs and improves efficiency without affecting the quality of the service and the in-house staff currently carrying out the services.

1.4 Key Questions

In order to test the research hypotheses the research seeks to answer the following key questions:

a) What are the motivating reasons and perceived advantages that drive the organisation to contract out its in-house services to private sector companies?

b) What are the implementation problems of contracted out projects (during pre and post contract stages)?

c) Does 'Contracting Out' lead to a reduction in operating costs without affecting the quality of service?

d) Is private sector more efficient than public sector? And if so why?

e) What effect does 'Contracting Out' have on the in-house staff presently providing the service?

f) What lessons can be learnt and what are the elements that lead to the success of 'Contracting Out' projects?

1.5 Effectiveness Evaluation

One of the main objectives of this research addressed above is to evaluate the effectiveness of 'Contracting Out' the organisation's in-house services to the private sector companies.

A framework for the assessment of effectiveness of 'Contracting Out' the organisation's in-house services has been developed. Such framework is developed based on reviewing

the literature on the implementation of 'Contracting Out' projects and their effectiveness, coupled with the findings from Stage 1 of the research on the motivating reasons and perceived advantages of "Contracting Out" discussed at Chapter 6.

Effectiveness would accrue if the project has resulted in cost savings, efficiency gains, the quality of service has improved and the side effects on existing staff are minimal.

1.6 Definitions and Limitations of the Research

This research concentrates on one particular type of privatisation, namely 'Contracting Out', unless otherwise specified, the term "privatisation" will take this meaning.

'Contracting Out' government services in this study is taken to mean the process by which a government organisation signs a contract with a private sector company, as a result of a competitive tender, to provide a service presently being provided by in-house direct staff. Under this type of privatisation the ownership of the assets/facilities and control over the service remains with the government organisation, the private company takes over the day-to-day management and operation responsibilities in return for a fee by government authority.

The organisation is a department of the Ministry of Defence (Oman) responsible for the general engineering support for the Ministry and for the provision of power, water and sewage treatment services to the Ministry's camps through out the country. In addition, the organisation is also responsible for designing and managing all construction projects and services contracts on behalf of the Ministry of Defence and the armed forces.

The types of the organisation's services addressed in this study are limited to:

a) Maintenance of graded roads, airstrips and helipads (MRAH),

b) Operation and maintenance of support services facilities (O & M),

c) Maintenance services for buildings and civil works (MSB&C).

However, reference is also made to other services contracted out by the organisation, like catering and painting services and it should not be difficult to generalise the analysis to other types of government in-house services.

Due to the confidentiality of the data used in this study the identity of the interviewees will be anonymous, identified only by the interviewees overall job title e.g. Senior

Officer, CEO, Maintenance Director, Senior Contract Supervisor, Contract Supervisor, Maintenance Manager, etc. In addition, numerical data relating to costs will be measured on the basis of change relative to pre-'Contracting Out' baseline. Hence, any commercially sensitive data is not disclosed.

1.7 Why the Interest in the Study

Privatisation represents an important feature of economic and development policy in the Sultanate of Oman. The author, noting the importance of such a topic, embarked on research on Build-Own/Operate-Transfer (BOT) method of privatisation in Oman as part of an MSc in projects management at the University of Glamorgan in 1996. Since then the author has been extensively involved with the privatisation process at his place of work, which is limited to the 'Contracting Out' of in-house services. The author was fortunate to be the first quantity surveyor within the Ministry to be involved in drafting, from the scratch, the necessary tender and contract documentations for 'Contracting Out' projects within the organisation. This has provided him with the very good opportunity to develop his professional experience. The results of which have been a very valuable experience in yet another new field, privatisation, and with another form of services procurement method, 'Contracting Out'.

Due to the fact that 'Contracting Out' is a relatively new process at the author's organisation, and in Oman in general, the author believes that it is a unique opportunity to research a topic that is being extensively used by government organisations worldwide and for which no academic research has so far been carried out in Oman.

The expected outcomes of the research include:

- Better understanding of the procedures and the problems inherent in the implementation of 'Contracting Out' government in-house services and their effectiveness.

- Improvement to the existing system and procedures of 'Contracting Out' at the author's organisation.

- A contribution to the present body of knowledge on 'Contracting Out' effectiveness evaluation especially as this the first comprehensive research of its type in Oman.

1.8 Outline Methodology of the Research

The research for the purpose of this study was carried out in Oman. An intensive literature review on the subject of 'Contracting Out' as a method of privatisation was, however, undertaken at the outset in the UK during the author's visits to the University and by extensive use of the Internet. The aim of this was to develop an understanding of previous work in the field based on the experience of other countries with the process.

This research is primarily qualitative in nature based on case study research. The research is built around three case studies; which reflect an analysis and assessment of previous and current situation of "Contracting Out" projects within the organisation. The purpose of the in-depth case studies is to gain an insight into the 'Contracting Out' procedures at the author's organisation and the problems inherent in its implementation. Hence, the effectiveness of such a process can be evaluated.

The research is made up of two stages. Stage 1, in addition to the literature review discussed above, entailed author's observations based on his experience, documentation review, and exploratory interviews with decision makers and senior managers within the organisation. The aim of this was to establish the motivating reasons and the perceived advantages of "Contracting Out" the organisation's in-house services. Stage 2 comprised the three in-depth case studies. The in-depth case studies are based on the following:

a) Author's observations based on experience with each project,

b) Thorough review of contract documents and pre and post contract stages documentation,

c) Semi-structured self administered in-depth interviews with the organisation's supervision team and contractors for each project studied.

d) A cost comparison of post 'Contracting Out' costs with an established pre 'Contracting Out' base line.

e) A comparison of performance data before and after "Contracting Out".

A total of 12 exploratory interviews were carried out for Stage 1; and a total of eight in-depth interviews with supervision team members and three with contractors for the case studies for Stage 2. The collected data have been analysed qualitatively only as the sample size was small and did not constitute a large sample for quantitative analysis.

1.9 Structure of the Dissertation

The study is divided into two main parts **A**, and **B**.

Part A, which is **A Systematic Review of Contextual and Managerial Issues**, is made up of seven chapters. **Chapter 1**, which is this chapter, is a general introduction to the study highlighting the research background, aims and objectives of the study, research hypotheses, outline methodology and structure of the dissertation. **Chapter 2** is the first chapter of the literature review for the research. It presents an overview of the theoretical background on privatisation in general by looking at areas like history and definition of privatisation, types of privatisation, factors stimulating its growth, and finally a general look at its benefits and pitfalls. The theoretical framework on 'Contracting Out' as a method of privatisation is described at **Chapter 3,** the second chapter of the literature review. This chapter discusses the definition and history of 'Contracting Out', extent and reasons for adoption, advantages and problems inherent in its implementation. The previous available empirical studies on the effectiveness of 'Contracting Out' government services are also discussed. **Chapter 4** details the research methodology followed in the study and the methods used for collecting, analyzing and presenting the data for the research. **Chapter 5** is an account of privatisation in Oman highlighting Oman's economy, the role of the private sector, the Omanisation process, and Oman's privatisation experience. **Chapter 6** presents the findings on the motivating reasons and the perceived advantages of 'Contracting Out' the organisation's in-house services. **Chapter 7** discusses the research hypotheses and the effectiveness evaluation framework developed to evaluate the "Contracting Out" projects at the organisation.

Part B, which is **An Evaluation of 'Contracting Out' projects at the Author's Organisation,** is made up of seven chapters. **Chapter 8** is a preamble to the case studies providing a brief background on the three case studies for the portfolio, reasons for selection and author's involvement in each project. **Chapters 9 to 11** are the findings of the three in-depth case studies for this research based on the fieldwork. **Chapter 12** provides an overview and discussion of the case studies findings. The research hypotheses are tested in this chapter together with a comparison with previous theoretical research in the field of 'Contracting Out'. **Chapter 13**, evaluation and review, provides an overview of the effectiveness evaluation and lessons learnt. It also puts forward recommendations to improve the present "Contracting Out" system and

procedures. Finally the conclusions and suggestions for further research are made in **Chapter 14** of this study.

CHAPTER 2

PRIVATISATION

Chapter 2

PRIVATISATION

2.0 Introduction

"Nothing is as powerful as an idea whose time has come".

(Victor Hugo, a famous French Author cited in Reed, 1997)

In the post Second World War period many ideas have been put forward and many changes have taken place in the role of government. The overriding change that has occurred in the late 1970s and early 1980s has been in an increased reliance on the private sector and less dependence on government in the provisions of public goods and services. This change has heralded the move towards privatisation, which in its broadest sense entails a simultaneous shrinkage of the government sector and an expansion of the private sector.

For many years now, a privatisation wave has been sweeping the globe. Governments of varying ideologies around the world have been divesting government funded enterprises and contracting with private companies to provide traditional government services.

The aim of this chapter is to provide the theoretical background on privatisation in general based on literature available on the subject. The areas that will be covered include looking at the history and definition of privatisation, types of privatisation, factors stimulating its growth, and finally a general look at its benefits and pitfalls.

2.1 History and Definition of Privatisation

The term *"privatisation"* did not make the English Language Dictionary until the early 1980s. However, Drucker (1969) coined the term *"reprivatise"* in the late 1960s. Drucker concluded that government *"is a poor manager"* and that government was good at making decisions but not good at executing them. Hence, Drucker contended government ought to *"reprivatise"* and concentrate on decision making rather than execution of service provision [cited in Hodge, 2000]. What this has meant is that as

many government activities as possible were to be evaluated for possible transfer to the private sector.

According to Hodge (2000) earliest privatisation program to mark recent history was that of General Pinochet in Chile in 1974. Following that, in 1979 Margaret Thatcher, the then Prime Minister of the United Kingdom, initiated a radical program of privatisation of industry and services ending a long era of nationalised industries started in1945 (Fraser, 1988). Following these movements the term privatisation has had a wide array of meanings.

Three decades after its advent, privatisation has rapidly caught on worldwide and is now truly international. Governments of all ideologies ranging from conservative to ex-socialist are adopting it as a reform mechanism and many are seriously considering it with vigor. It is certainly one of the key issues occupying the minds of both politicians and economists in modern times.

While the 1990 edition of Chambers English Dictionary defined the word to *"Privatize"* as to "make private: to denationalise" the Oxford Advanced Learner's Dictionary 1998-1999 (fifth edition) defines the word *"privatize"* to mean "to transfer something from state control or ownership to private ownership. However, the Penguin *Dictionary of Economics* third edition, 1983 defined privatisation along the following lines:

> *"The sale of government-owned equity in nationalised industries or other commercial enterprises to private investors, with or without the loss of government control of the organisations".*
>
> (Cited in Hurl, 1995)

All these definitions do not provide a true reflection of what the term privatisation means.

Many researchers have defined and interpreted privatisation in different ways. Some define privatisation under the many activities that it takes including selling state owned assets, service shedding, franchising, public private partnerships and 'Contracting Out' production [e.g. Pirie, 1988; Seidenstat (1999a)]. Others adopted narrower definitions of privatisation mainly referring to it under the selling of state owned enterprise (SOEs), as

the case with the Thatcher Government in the early 1980s [e.g. Hogan et al, 1994; Ascher, 1987]. They provide the following definition of privatisation:

> *"The transfer of majority ownership of SOEs to the private sector by sale of ongoing concerns of assets following liquidation".*

A very wide definition of the term *"privatisation"* that is given to it by other researchers is:

> *"The replacement of government institutions or activities with those of private sector".*
>
> [Cited in Keller et al, 1994]

Others define privatisation broadly as "the shifting of a function, either in whole or in part, from the public sector to the private sector" (Butler, 1991 cited in Feigenbaum et al, 1999).

According to Feigenbaum et al (1999) privatisation involves the increased reliance on the private sector and market forces to take over functions or responsibilities that are regarded to be government responsibility. They add that, to some, privatisation represents a move from government to private ownership. To others, it connotes a reduction in the regulatory role of government.

In addition, the U.S. General Accounting Office (1997) defines privatisation as:

> *"Any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector"* [cited in Seidenstat, 1999a].

Ascher (1987) comments that the word *"privatisation"* itself is an umbrella term that has come to describe a variety of government initiatives aimed at increasing the role of the private sector. Also, on the same lines, Heald (1983) argues that it is an umbrella term for many different policies, loosely linked by the way in which they are taken to mean a strengthening of the market at the expense of the state (cited in Cope, 1995).

Pirie (1988) states that the idea involves transferring production of goods and services from the public sector to the private sector. According to Pirie it is not a policy but an

approach, which recognises that the regulation that the market imposes on economic activity is superior to any regulation, which men can devise and operate by law.

In addition, while Ward (1999) states that privatisation has no strict legal definition, he notes that "*any process which involves the private sector in operating or investing in publicly-owned assets or providing services previously provided by public bodies can be referred to as privatisation*" (pp. 40).

Based on the foregoing discussion on the term privatisation one could, with some confidence, define privatisation, as "the shifting of government owned assets or the provision of services from the public sector hands to the private sector hands". The objective of such a move is to introduce greater competition into the industries, thereby improving efficiency and reducing the cost to the public.

2.2 Types of Privatisation

2.2.1 General

While Pirie (1988) and Seidenstat (1999a) indicate that privatisation can take many forms ranging from selling of state owned assets and franchising, to 'Contracting Out' government in-house services, Gomez-Ibanez (1993) state that the three most common forms of privatisation are:

- Sale of existing state-owned establishments (SOEs),
- Private financing for new infrastructure developments (infrastructure privatisation), and
- 'Contracting Out' of public services previously provided by government employees to private sector companies.

These forms are consistent with those given by other researchers (e.g. Hebdon and Gunn, 1995; Ward, 1999; Hodge, 2000 etc...)

The following sections will primarily provide an overview of the first two forms of privatisation. The third type, 'Contracting Out', which is the focal subject of this study

will be touched upon very briefly here as a more comprehensive and elaborative literature review of such a process shall be covered in the next chapter.

2.2.2 Sale of Existing State-Owned Establishments (SOEs)

This type of privatisation normally involves disposal of state-owned industrial assets to private sector individuals/bodies via either a public offer for sale/tender or a trade sale/management buy-out. This type also involves the disposal of other state owned assets such as land and buildings (Curwen, 1994). According to Pirie (1988) and Hodge (2000) the activities that are undertaken under this type of privatisation include:

- Selling the whole enterprise (i.e. divestment),
- Selling complete parts of the enterprise,
- Selling a proportion of the enterprise,
- Selling to the workforce or management,
- Giving to the public,
- Giving to the workforce.

Boycko et al (1996) state that privatisation of state establishments has swept the world. According to Gomez-Ibanez and Meyer (1993) this type of privatisation has occurred everywhere: the UK and the rest of Europe, the USA, and former planned economies like those of Eastern Europe and the Former Soviet Union, and developing countries.

Examples of early SOEs that were privatised in the UK include: British Aerospace (1981), Cable and Wireless (1981) and the National Freight Corporation (Feigenbaum et al, 1999 and Fraser, 1988).

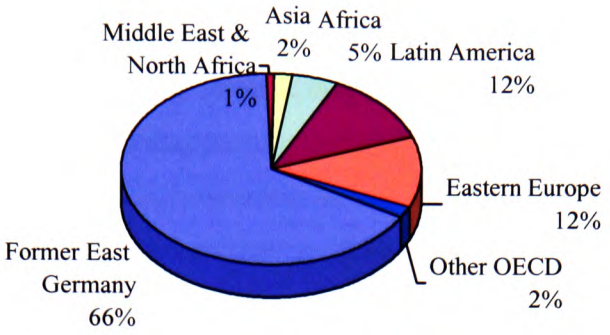

Figure 2.1 Number of SOEs privatised worldwide by region, 1980-1991 (Source: World Bank, cited in Country Economics Dept. 1992)

Kikeri et al (1994) suggest that between 1980 and 1992 more than 15,000 SOEs were privatised worldwide. As figure 2.1 indicates the majority of these (66%) were in, the Former, East Germany, 12% in other Eastern Europe countries and 2% in the Organisation for Economic Co-operation and Development (OECD).

Hodge (2000) states that in the case of developing countries, the changes to ownership through SOEs have been massive. He reports that since 1973 Chile has reduced ownership of production assets from 39% of GDP in 1973 down to 12% in 1989. Likewise, Mexico has privatised more than 400 of its 1115 SOEs since 1984. Also, Country Economics Department (1992) adds that for developing countries SOEs sales in ex-socialist economies in Eastern Europe accounts for approximately 37% as figure 2.2 suggests. Of the reminder, there has been 37% in Latin America, 17% in Africa and the rest in Asia and the Middle East.

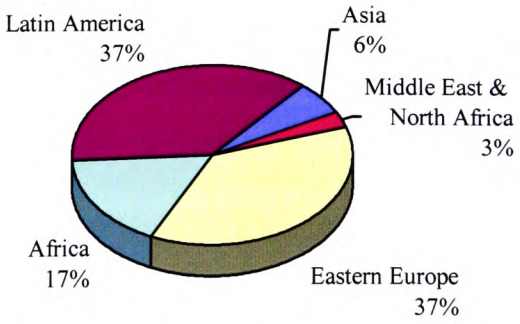

Figure 2.2 Number of Developing Countries SOEs privatised by region, 1980-1991 (Source: World Bank, cited in Country Economics Dept. 1992)

2.2.3 Private Financing for New Infrastructure Developments

Private financing has been increasingly used in financing the development of infrastructure projects since the early 1980s. There has been a big increase in the surge of private capital into financing infrastructure projects in recent years. According to the World Bank Group, private capital investment in infrastructure projects grew from US $21.8 billion in 1986 to US $172.9 billion in 1994 (Figure 2.3). In addition, Lapper (1996) states that the international project finance market, which provides private capital for infrastructure projects, grew by more than 50% in 1995.

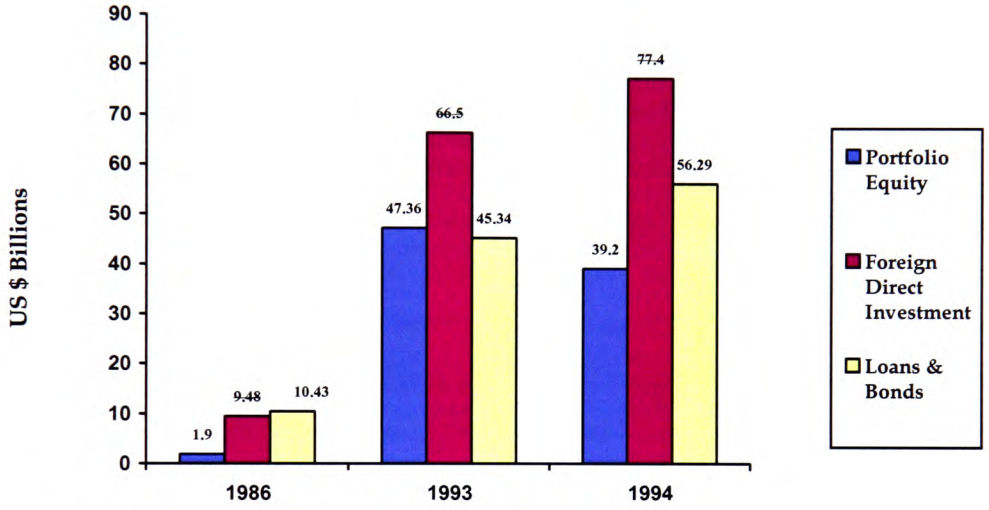

Figure 2. 3 The surge in private capital flows (Source: World Bank Group cited in Al-za'abi, 1996)

These techniques involve the private sector in financing, designing, constructing and operating an infrastructure project for a specified period of time after which the project/facility reverts to the government. In such an arrangement large infrastructure projects are financed based on the cash flows that the project is expected to generate, instead of budgetary resources or relying upon a sovereign guarantee of the project debt. This type of arrangement is often referred to as project financing.

Private sector investment in major infrastructure projects is not unusual. McCarthy and Tiong (1991), state that this type of arrangement has been used for several centuries and much of the infrastructure of a number of countries was put into place by use of concessionary arrangements. The birth of the industrial revolution in the UK was

founded on this basis, with some infrastructure systems like the railway system developed by private investment under government license.

The literature suggests that this type of privatisation, especially under the term BOT, was first advocated in the early 1980s by Turkey's Prime Minister Turgut Ozal (to designate a "Build, Own and Transfer" or a "Build, Operate and Transfer") [Barrett, 1986; Beuker, 1988; Augenblick and Custer, 1990]. Walker and Smith (1995) also argue that the adoption of the concept can be identified earlier when, in Hong Kong in the mid-1950s, a privatised cross-harbour vehicular tunnel was first proposed.

Similar arrangements, often known as "concessions" were also widely used to develop infrastructure in many parts of the world. According to Monod (1982), the first concession for water supply was granted in 1782 to the Perier Brothers in Paris. After that in 1840 concession contracts were also used to build the 195 km Suez Canal (Augenblick and Custer, 1990). The concept has in more modern times been used in the US, UK and other parts of the world to build numerous privately promoted infrastructure projects, involving power plants, waste disposal facilities, bridges, tunnels, toll roads etc. The most striking example of infrastructure privatisation projects in recent years is the US $20 billion Channel Tunnel between the United Kingdom and France (Prager, 1997).

Since the advent of BOT in early 1980s, several variations of the BOT term have emerged, however the most frequently used terms are BOOT (Build-Own-Operate-Transfer), BOO (Build-Own-Operate) in which there is no transfer back to the government, and DBFO (Design-Build-Finance-Operate) a term frequently used in the United Kingdom to refer to new schemes.

The normal structure of a privatised infrastructure project would involve the creation of a special purpose project company in which contractors, operators and banks may have a share. This project company borrows money to fund the construction, on the security of the revenue that will be generated by the project. All the financial obligations must be serviced within the life of the concession. The concession period is a fixed period and ranges from 20-30 years depending on the type of project. A normal privately financed infrastructure project arrangement is shown in Figure 2.4. At the end of the concession period, the ownership of the project and the right to operate it reverts to the government,

which may then choose to either grant a new concession or to operate the project itself (Haley, 1992).

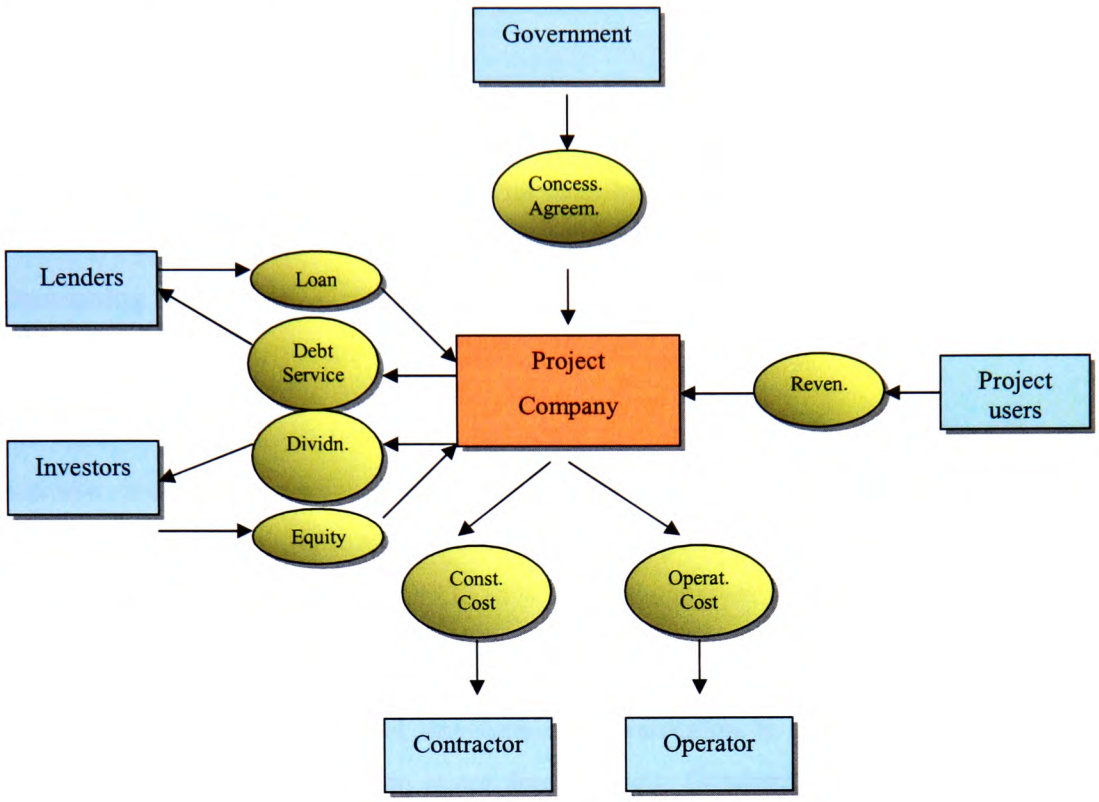

Figure 2.4 Normal arrangement of privatised infrastructure project (Adopted from Al-Za'abi, 1996)

2.2.4 "Contracting Out" Government Services

As stated earlier in this chapter this type of privatisation will only be referred to here briefly as a more comprehensive explanation of it can be found in the following chapter.

The third common form of privatisation is the moving of provision of public services from in-house direct staff provision to private sector provision i.e. the "Contracting Out" of the provision of public services to private sector companies. Cope (1995) states that it is one of the main forms of privatisation that is used by governments around the world.

According to Hodge (1999) the roots of 'Contracting Out' are found in the privatisation movement. Under this type of privatisation the government would still be responsible for service quality and delivery (Hebdon and Gunn, 1995).

Seidenstat (1999a) refers to 'Contracting Out' as a method of privatisation by which the government operations are shifted to the private sector. The government authority retains ownership and overall control but employs the private sector to render the service. While privatisation in Europe frequently has meant asset sales, in the USA, "Contracting Out" public functions to private firms is the type of privatisation that has been more likely (Feigenbaum et al, 1999).

This type of privatisation has been used since the early 1980s in the USA, UK and Australia. However, it is the dominant form of privatisation in the United States. In advocating 'Contracting Out' as the most preferred method of privatisation in the USA Seidenstat (1999a) cites that in 1993, 78% of state agencies used 'Contracting Out' as the primary privatisation device.

Many researchers comment that this type of privatisation is an important option in situations where full privatisation is not favoured (e.g. Gresham and Slaudeman, 2000) and is considered by others to be a step towards full privatisation and has greater probability of being used than other forms of privatisation (e.g. Seidenstat,1999a).

2.3 Factors Stimulating the Growth of Privatisation

Many factors have stimulated the growth of privatisation that are based on both economical and political grounds. The three basic types of privatisation addressed earlier in this chapter usually arise for somewhat different reasons.

As for the SOEs or 'Contracting Out', the most cited reason for its emergence is the widespread belief that the private sector is more efficient than the public sector i.e. public sector is inefficient (e.g. Savas, 1987; Wiltshire, 1987; Pirie, 1988; and Vinning and Boardman 1992 cited in Boycko et al 1996)

Pirie (1988) states that public operations tend to use higher manpower levels for identical private sector operations, and use their capital and machinery in a much less

effective way. He argues that the lower costs in private sector operations stem from the more efficient use of both workers and equipment. Gomez-Ibanez and Meyer (1993) also add that a privately managed enterprise or a private contractor, motivated by the need to make a profit to stay in business, may have stronger incentives to be more cost conscious, efficient, and customer oriented than a public enterprise.

Among the other factors cited for the move towards privatisation is the high costs and poor performance of SOEs (Kikeri et al, 1994, Country Economics Department, 1992 and Boycko et al, 1996). The poor financial performance of SOEs was partly responsible for unsustainable fiscal positions (Levac and Wooldridge, 1997).

Levac and Wooldridge (1997) add that the need to reduce budget deficits and concerns about the efficiency of government bureaucracies and SOEs led many governments to embark on privatisation programs.

According to Country Economics Department (1992) many SOEs around the world have made very heavy financial losses. These losses have become an unaffordable burden on governments' budget absorbing scarce public resources. Kikeri et al (1994) add that some governments have opted for privatisation because of their inability to finance the much needed investment for the upgrading or maintaining existing SOEs. It is hoped that the new private owners will increase the efficiency of the resources employed in the firm and decrease the financial demands made by SOEs on strained government budgets.

Privatisation and 'Contracting Out' are pursued because they are consistent with popular political positions. Among the political benefits of privatisation is credit claimed by elected officials for reforming and shrinking government, thereby reducing tax-payer burdens (In Johnston & Romzek, 1999).

As for infrastructure privatisation, the overriding motivation is the desire to attract new sources of funds to supplement the constrained resources of the public sector. Efficiency may still be claimed as an important reason for this type of privatisation as the private sector is thought to build infrastructure cheaper and faster than the public sector (Gomez-Ibanez and Meyer, 1993).

Haley (1992) comments that the emergence of private sector involvement in public sector projects arises from a number of trends both ideological and fiscal (financial) in nature. Both Mrs. Thatcher and, during his Presidency, Ronald Reagan spoke frequently on the need to return to the glorious days of the free world markets which prevailed before the First World War. During the post World War II era, the majority of infrastructure projects in developing countries were financed by budgetary resources or sovereign borrowing. Several trends took place in the late 1970s and early 1980s leading to an upturn in interest in private financing resulting from the pressure to find an alternative way to finance these projects. Augenblick and Custer (1990) put these trends as follows:

- With continued population and economic growth in many developing countries, the need for additional infrastructure continues to grow.

- The growing third world debt crisis has meant that developing countries have had less borrowing capacity and fewer budgetary resources of their own to finance much needed projects.

- Major international contracting firms that were very busy in the oil rich Middle East during the 1970s were facing a significant down turn in business during the early 1980s as a result of the oil crisis. Consequently, this meant that they had to look for more creative ways to promote additional projects.

- In the course of the 1980s a number of governments as well as international lending institutions have become increasingly interested in promoting the development of the private sector and in the "privatisation" of traditionally public sector enterprises.

In addition, the following factors may also be relevant in explaining the upturn in interest in private financing:

- Private financing arrangement avoids the need for governments to be involved in operation and maintenance which in many developing countries tends to be inefficient and costly (McCarthy and Perry, 1989).

- There is an increased sophistication in the capital markets allowing more ways with which to raise finance (Barrett, 1987).

This seems to be the case for developed countries. And in developing countries:

☐ There is either no private capital market or a very small one. Historically, the development of the capital market has gone hand-in-hand with the financing of large public infrastructure projects (Besant-Jones, 1990). Therefore, developing countries saw infrastructure privatisation as a way of developing their capital markets.

Figure 2.5 summaries the main factors stimulating the growth of privatisation.

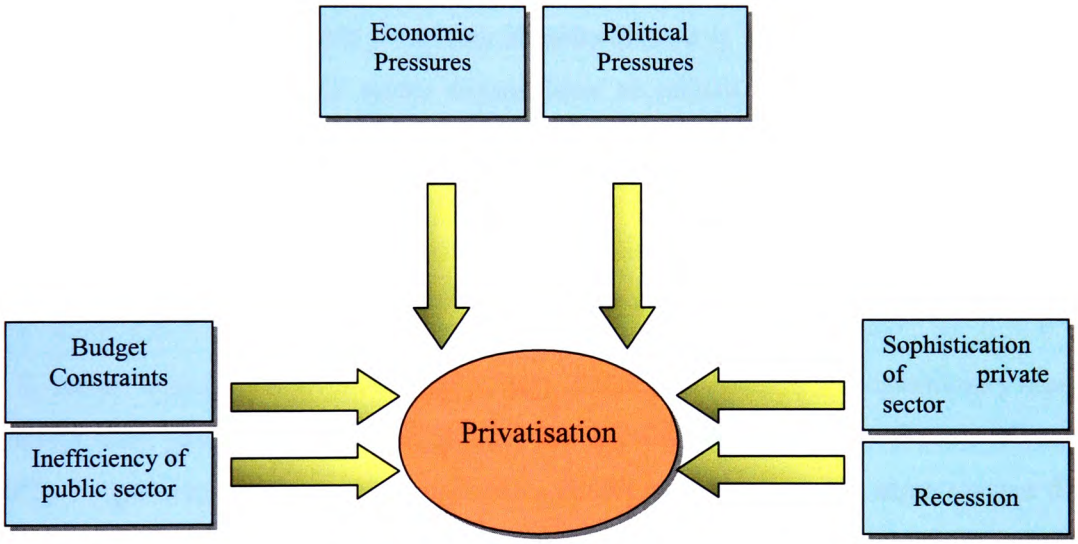

Figure 2.5 Factors stimulating the growth of Privatisation

2.4 Benefits and Pitfalls of Privatisation

2.4.1 General

The benefits and pitfalls of the decision to privatise by SOEs, infrastructure privatisation and 'Contracting Out' methods of privatisation would vary from case to

case. However, there is a general consensus in the literature on the benefits and pitfalls of privatisation in turn as could be seen in the following sections.

2.4.2 Benefits

Increased Efficiency

The overwhelming claimed advantage of privatisation, which is applicable to the three types of privatisation described earlier in this chapter, is the increased efficiency of assets and services as a result of privatisation (Ascher, 1987; Wiltshire, 1988; Hurl, 1995; Boycko et al, 1996; and Hodge, 2000).

By moving an asset or the provision of a service to the private sector the privatised concern becomes accountable to private shareholders. It is claimed that this increases the pressure on the private sector organisation to reduce costs and achieve higher profits. In addition, a more efficient usage of resources comes about through increased competition in the capital and product markets. According to Hardwick et al (1986) investors in the capital market will only purchase the shares of those companies which are capable of using funds to generate an acceptable profit.

E. S. Savas, a proponent of privatisation, argues that privatisation is economically more efficient than government delivery of services because of economies of scale (Savas, 1987). Proponents also argue that private companies can perform the same service for several government departments, justifying their invested costs in necessary equipment and the use of specialised labour.

Cost Savings

The increased efficiency referred to above is claimed to lead to cost savings for government. Furthermore, it is argued that competition opens the door for contractors to offer reduced prices for goods and services or provide goods and services superior to those already in the market. Such competition keeps the market competitive and

restrains price increases (Kettl, 1993). Also, competition ensures that goods and services desired by the customer are provided at the economic cost.

According to Hebdon and Gunn (1995) the other factors that lead to cost savings are: lower labour costs in the private sector and the fact that private sector avoids large capital outlays for specialised equipment. The labour costs are generally lower due to higher productivity in the private sector.

Reduction in the Public Sector Borrowing Requirement (PSBR)

The sale of government assets raises revenue for the government in the year of the sale and hence leads to a reduction in the PSBR for that year. Furthermore, the sale of nationalised industries which tend to earn insufficient profits to finance investment program will help to reduce the PSBR in future years (Hardwick et al, 1986).

Improvement in the Quality of Service

The advocates of privatisation argue that market forces regulate quality (Kettl, 1993). Services subjected to competitive market forces are claimed to lead to service effectiveness. Contractors who provide inferior goods and services will soon find themselves losing business to competitors who provide better services.

Although the above benefits are more or less applicable to the three different types of privatisation discussed in this chapter, the following are particular advantages of infrastructure privatisation (Adopted from Al-Za'abi, 1996):

- Provides additionality in attracting private finance into development projects.
- Can be used by government as benchmarking tool to assess the performance of public projects.
- Promotes the transfer of technology to the host country and helps in training local staff.

- Relieves pressure on government's budgetary requirements thus allowing resources from government's budget to be used to other essential services like security, health, education etc.

- Government shares the risk involved in the project with the private sector.

2.4.3 Pitfalls

Having considered the advantages privatisation perceived to bring about, it is also important to highlight the disadvantages such a move entails.

Threat to the Public Interest

Hardwick et al (1986) believe that making nationalised industries directly accountable to private shareholders as privatised concerns may mean less regard to their "public interest" responsibility inherent in them. They cite that critics saw the privatisation of British Telecom as a threat to the rural telephone network and the call-box system.

Creation of Private Monopolies

Critics of privatisation argue that privatisation means in many instances a replacement of public monopolies with private monopolies. This could be the case with public services that are natural monopolies, such as gas, electricity and telecommunications. However, the extent of this problem can be limited by putting in place necessary government regulatory and control procedures and by subjecting the particular asset or service to the competitive forces of the market.

Bad Effects on Employment

Among the most cited problem of privatisation is the negative effect it can have on jobs and the workforce. Opponents believe that it undermines organised labour and results in jobs without health, pension and other benefits.

The Public Services International Department of the World Bank states that many jobs have been lost in the course of privatisation, particularly in the former communist countries. Some of the examples cited to give a flavour of the scale of the problem include:

- 70,000 local government jobs have been lost in the UK as a result of privatisation;
- Argentine unions estimate that 200,000 jobs have been lost as a result of privatisation;
- The international labour organisation (ILO) reckons that 1.5 million workers were retrenched from state enterprises and the civil service over a five-year period in Vietnam. (Source: Public Services International (nd.) "The Roots of privatisation". Briefing notes for current debates on Public Sector issues. The World Bank.)

2.5 Summary

This chapter has introduced privatisation in its general context. Although privatisation was contemplated in the 1960s, it found an increasing usage since the early 1980s only. Privatisation aims at reducing the size of the public sector and increasing the proportion of assets owned privately. It also aims at promoting efficiency through competition leading to providing goods and services at a very economical price to the public.

Privatisation can take many forms, however, the most common forms of privatisation are: the sale of SOEs, infrastructure privatisation and "Contracting Out" government services.

The move towards privatisation has been stimulated by both political and economical pressures to improve the efficiency of the services and to shrink the size of governments. The most cited reason for the emergence of privatisation through SOEs and "Contracting Out" is the widespread belief that the private sector is more efficient than the public sector. On the other hand, infrastructure privatisation has emerged due to the need of finding new sources of funds for development projects because of constrained public budgets.

Although privatisation is perceived to lead to improvement in quality of service and cost savings to governments its major drawback is the side effect it might lead to on government employees currently providing the service.

CHAPTER 3

CONTRACTING OUT AS A METHOD OF PRIVATISATION

Chapter 3

'CONTRACTING OUT' AS A METHOD OF PRIVATISATION

3.0 Introduction

The previous chapter has set the scene on privatisation in general. This chapter provides the theoretical framework on 'Contracting Out' as a method of privatisation. This chapter aims at discussing the definition and history of 'Contracting Out', scope, and reasons for adoption, advantages, and problems inherent in its implementation. The previous available empirical studies on the effectiveness of 'Contracting Out' government services would also be detailed.

3.1 What is 'Contracting Out'?

3.1.1 General

Chapter 2 has established 'Contracting Out' as one of the three most common forms of privatisation. Some researchers refer to 'Contracting Out' as partial privatisation (e.g. Pirie, 1988); others use the term privatising management to refer to 'Contracting Out' (e.g. Azzam, 1995 and Country Economics Department, 1992). Whatever terminology is used, 'Contracting Out' government services, is another privatisation option that has witnessed an increasing interest in recent years.

The literature on the topic refers to 'Contracting Out' government services as the dominant type of privatisation in the USA (Hebdon and Gun, 1995; Lopez-de-Silanes, Sheleifer, and Fishny, 1997; Seidenstat, 1999a; Hodge, 1999). The introduction of Compulsory Competitive Tendering (CTC) and 'Contracting Out' in the UK has also been recognised as a major element of the Thatcher government's privatisation movement in 1980s (Domberger and Rimmer, 1994; Reeves, 1995; Hodge, 1999).

3.1.2 Terminology

The term 'Contracting Out' as with privatisation did not make the English Language Dictionaries until the 1980s. The Oxford Advanced Learner's Dictionary 1998-1999 (fifth edition) defines the term 'Contracting Out' as "*to arrange for work to be done by another firm rather than one's own*". It gives the example of 'Contracting Out' catering services as an illustration.

According to Ascher (1987) the term "Contracting Out" describes the situation where one organisation contracts with another for the provision of a particular good or service. She argues that it is essentially a form of procurement for an end product that could otherwise be provided 'in-house'. In supporting this argument Hartley (1984a) states that governments around the world have been using it for many centuries in the procurement of goods and services. Hartley also observes that it is an aspect of privatisation that has been extensively used in the public purchasing.

The literature suggests that 'Contracting Out' seems to be the term widely used in the public sector to refer to government departments contracting with private sector organisations for a particular service or product. A similar term that is synonymously used in the private sector is "outsourcing" (Ascher, 1987; Franciosi, 1998; and Tarricone, 1999). Although some researchers tend to use the term "outsourcing" to refer to privatising public services (e.g. James, 1992; Trevathan, 1999; Usry, 1998), the consensus over the vast number of literature available on the topic uses the term 'Contracting Out' public services rather than "outsourcing". The term "outsourcing" tends to be used in the private sector when one company hires another company to render a particular service. Bendor-Samuel (1998) stresses that in 'Contracting Out', the customer owns the process, and the contractor is asked to provide specific tasks. In "outsourcing", Bendor-Samuel states that the entire business process is turned over to the contractor, and the contractor owns the process. The literature refers to "outsourcing" in the private sector in the context of facilities management, a term that is extensively used in the United Kingdom to refer to situations where in-house non-core services are out tasked to another organisation (Williams, 1996). Other terms used by some researchers is "contracting" to reflect 'Contracting Out' government services (e.g. Domberger and Jensen, 1997, Prager, 1997).

Furthermore, Prager (1997) gives two types of 'Contracting Out': macro-contracting and micro-contracting. According to Prager in macro contracting, an entire public activity is contracted out, as the case with private sector operation and management of government owned hotels. Prager cites examples of these in Egypt and Jamaica. In contrast, micro contracting applies only to specific activities rather than entire functions. Examples of this are the 'Contracting Out' of court facilities maintenance or catering contracts of local authorities.

Other terminology issue that should be addressed here is the difference between 'Competitive Tendering' and 'Contracting Out'. Competitive tendering refers to situations in which the in-house public sector service provider competes with outside contractors by submitting a tender for the same type of works (Domberger and Jensen, 1997). An example of this is the Compulsory Competitive Tendering introduced under the 1988 Local Government Act in the United Kingdom. This Act obliged local authorities in England and Wales to put a group of services out to tender and to include in-house providers in the competitive process (Domberger and Rimmer, 1994). Similar processes to this in the USA are "open competition/contracting" (Prager, 1997) and "managed competition/competitive contracting" (Seidenstat, 1999a). On the other hand, 'Contracting Out' restricts competition to outside contractors without involving in-house providers.

3.1.3 Definition

Different researchers provide different definition for 'Contracting Out' government services.

Hartley (1984b) believes that:

> *"'Contracting Out' is a vast area, covering the possible use of private contractors for a whole range of public sector services. It concerns services which are state financed but could be privately supplied".*

Also, Pirie (1988) states:

> *"'Contracting Out' is a method of partial privatisation that involves keeping the finance in the public sector, but moving production over to the private economy. Instead of using in-house direct labour to produce goods and services, independent businesses are paid from public sector funds to perform the task"* (pp. 140).

Furthermore, Gomez-Ibanez and Meyer (1993) refer to 'Contracting Out' as a common form of privatisation that involves the *"take over of conventional public sector functions through contracting to private vendors"*. Gomez-Ibanez and Meyer add 'Contracting Out' is mainly, although not exclusively, a US and British phenomenon.

Also, Feigenbaum et al (1999) in establishing the different varieties privatisation can take, comment that 'Contracting Out' is a method of privatisation *"in which public officials act as service arrangers, deciding on what to be done and soliciting bids from private firms that are willing and able to perform the specified task"* (pp. 8).

In addition, Levac and Wooldridge (1997) comment that:

> *"When 'Contracting Out' services, the government usually finances and provides the framework for the delivery of the service, but private organizations, operate and manage the service"*.

Moreover, Cope (1995) argues that:

> *"'Contracting Out' involves the private sector providing goods and services to a public sector organisation. The public sector determines the goods and services to be provided, pays the private contractor providing the goods and services, and retains responsibility for their provision to the wider public"*.

In line with these definitions/statements is the statement by Seidenstat (1999a), which says that in the 'Contracting Out' model of privatisation *"the government entity retains ownership and overall control but employs the private vendor to render the service"* (pp.7). Also that of Prager (1997) *"through 'Contracting Out' more than any other form of privatisation the government can still provide the services without having to produce*

them. The government sets the overall framework and specifies the objectives, while private sector is responsible for service delivery".

Furthermore, Handler (1996) refers to 'Contracting Out' *as "a contractual relationship between the government and a private producer, in which government retains responsibility for financing a service or product, but delegates the production/provision authority to a private organisation* (cited in Johnston and Romzek, 1999). According to Johnston and Romzek 'Contracting Out' is viewed as a mechanism by which government can benefit from efficiencies inherent in private markets.

The foregoing definitions and statements address the following issues that typify 'Contracting Out':

a. The services are owned and financed by the government authority.

b. The private sector only operates and manages the particular service in return for a payment from government organisation.

c. Instead of using government organisation's in-house direct staff, private organisations staff are brought in to render the service.

d. The government organisation sets the framework for delivery of the service and retains an overall control over it.

All of these definitions reflect, to some extent, the true picture of what the 'Contracting Out' process is, however, they do not address the distinctive feature of competition inherent in 'Contracting Out'. To this end Domberger and Jensen (1997) argue that 'Contracting Out' means opening up to competition a set of economic activities which were previously immune from it. They add that private sector organisations are invited to submit bids for contracts to provide particular services to the client. In this case the client is a government department. Domberger and Jensen also state that with 'Contracting Out', the government organisation retains a fair measure of control over the activities concerned, monitoring performance, imposing financial penalties, and replacing the contractor in cases of gross performance failure.

In summary, 'Contracting Out' government services is the process by which a government organisation signs a contract with a private sector company, as a result of a

competitive tender, either to manage a government facility or to provide a service presently being provided by in-house direct staff.

Under this type of privatisation the ownership of the assets/facilities and control over the service remains with the government organisation, the private company takes over day-to-day management and operation responsibilities in return for a fee by government authority.

3.2 History of 'Contracting Out' Government Services

Researchers agree that 'Contracting Out' government services to private sector organisations is not new (e.g. Hartley, 1984a; Institute of Personnel Management, 1988; Pirie, 1988; and Kettl, 1993). The Economist Adam Smith advocated it more than 200 years ago, writing".... *The maxim of every prudent master of a family is to never attempt to make at home what it will cost him more to make than buy*" (cited in Cannon, 1989). Also, Hartley (1984a) comments that governments around the world have been using it for many centuries in the procurement of goods and services.

Furthermore, according to Institute of Personnel Management (1988) all Municipal Councils and health authorities contracted out the provision of some services or other to private companies. These services included; street lighting installation or certain hospital maintenance. However, with the election of the conservative government in 1979 in the UK there was increasing pressures from central government to look at other services with the aim of securing 'value for money'. The targeted services included the provision of refuse collection services; street cleaning; offices, schools, colleges and other premises cleaning; catering; leisure services; and laundry services (Institute of Personnel Management, 1988).

This pressure was further exerted later on by the introduction of Compulsory Competitive Tendering, under the 1988 Local Authority Act, which obliged local authorities in England and Wales to put a group of services out to tender (Cope, 1995; Prager, 1997; and Department of the Environment, 1991).

Under the American experience with 'Contracting Out', Ascher (1987) states that the first signs of real interest in 'Contracting Out' as an alternative to direct provision occurred in the US. She adds that although contracting for local services had existed in America for many years, it was not until the 1970s that it became a hot topic in local government arena. The interest in 'Contracting Out' then was due to several factors; foremost of which was the dramatic rise in the pay of local government workers in 1960s and early 1970s due to that pay scales had to be adjusted to compete with the private sector. With the economic problems resulting from the 1973 oil crisis among other problems, American cities were forced to look at other alternatives of service provision and 'Contracting Out' was seen as a very viable option in this regard.

Levac and Wooldridge (1997) also comment that government employment increased significantly during the 1960s and 1970s, coupled with an expansion of the public sector's participation in the economy and rising government spending on goods and services. However, governments had to streamline their bureaucracies and began hiring private firms to provide a wide range of public services, during the 1980s and 1990s due to the deteriorating fiscal positions during that period.

3.3 Extent of 'Contracting Out'

A review of the literature on the extent of use of 'Contracting Out' suggests that the process has a long history in most Western European countries (Domberger and Rimmer, 1994). According to Fixler (1988) and Walsh and Davis (1993) by the late 1980s 'Contracting Out' use ranged from police services in Switzerland to cleaning, refuse collection and the operation of slaughter houses in Germany and fire and ambulance services in Denmark.

Generally, 'Contracting Out' government services as an alternative to direct service provision has had a wide use internationally. The process has been applied to a wide range of services especially for the provision and maintenance of physical infrastructure, defence procurement, community services and the protection of the environment (Domberger and Rimmer, 1994). However, the literature suggests that the most commonly contracted out government service is refuse collection (Kitchen, 1976; Ascher, 1987; Cubbin et al, 1987; Reeves, 1995). Ascher (1987) comments that the ease

with which refuse collection outputs could be quantified made it well-suited for private provision and also made it the focus of academic interest in 'Contracting Out'. This argument is supported by the fact that majority of the academic studies on 'Contracting Out' government services, are based on refuse collection (e.g. Szymanski and Wilkins, 1993; Kitchen, 1976; Reeves, 1995).

According to Forsyth (1982), cited in Ascher (1987), although initial American academic studies were focused primarily on refuse collection, 'Contracting Out' was not limited to that service. The Health Care contracted out a number of services to private sector. These services include catering, domestic services and 'hospital management' contracts. In addition, Seidenstat (1999a) in reference to a U.S. Bureau of Census 1987 and 1992 cites other services that were also contracted out. These include services in relation to airports, electric utility, fire protection, gas utility, landfills, libraries, nursing homes, public transit, sewage, stadiums, and water supply. Among the other government services that historically have been most commonly contracted out are solid waste disposal, street cleaning, and management and operation of facilities (Hirsch and Osborne, 2000).

Miranda and Anderson (1994) note, "although the use of 'Contracting Out' varies across service areas, contracts have been used for every service local governments provide" (pp. 28, cited in Boyne (1998).

The bulk of the literature suggests that 'Contracting Out' government services is limited to existing services that are provided by in-house services. However, some researchers found that the process is not only used to transfer government services presently carried out in-house to private sector but has also been used to hire private contractors for newly provided services (e.g. Lopez-de-silances et al, 1995 cited in Kodrzyck, 1998 and Bingman and Pitsvada, 1997).

In summary, most, if not all, government services can be contracted out to private sector organisations. Table 3.1 provides a list of government services that are normally contracted out world-wide.

Table 3.1 A Sample of Government Services Normally Contracted out

S. No.	Service
1.	Refuse collection
2.	Catering services
3.	Vehicle towing and storage
4.	Street light operation
5.	Legal services
6.	Hospital services
7.	Fleet management and vehicle maintenance
8.	Utility billing
9.	Water treatment and distribution
10.	Recreational facilities
11.	Residential solid waste collection
12.	Elevator maintenance
13.	Architectural and engineering
14.	Building maintenance
15.	Landscape maintenance
16.	Equipment maintenance
17.	Vehicle and equipment maintenance
18.	Wastewater operation
19.	Insecticide painting
20.	Building and other Cleaning
21.	Fire

(Source: Kettl, 1993; Franciosi, 1998; Pirie, 1988; Hodge, 2000)

3.4 Motivating Reasons for 'Contracting Out'

Bingman and Pitsvada (1997) state that main public policy reasons to consider privatisation include: enhancement of government's ability to improve its own efficiency and effectiveness through the greater use of private sector under contract; a means for reducing the size of the government; achievement of greater competition; and encouragement of private sector development. However, according to Prager (1997) the pragmatic case for privatising government activities to private sector organisations rests primarily on the consequent cost savings and the improved services efficiency due to private sector's presumed greater efficiencies.

The literature suggests that in Countries like the UK the move towards privatisation has been a result of both general economic philosophies and political pressures to improve

the efficiency of public services (e.g. Feignbaum et al, 1999 and Institute of Personnel Management, 1988).

Keynesian Economic policies were pursued in the United States and Europe in the period post World War 2 and mid 1970s. Such policies called for a commitment to full employment, government involvement in the running of the economy, and the provision of certain basic public provisions free of charge e.g. education, health care etc. This has led to the expansion of public sector employment that was financed through public spending. By the late 1960s the development of public services, nationalisation and government subsidies made up a large proportion of Gross Domestic Product (GDP[1]) leading to economic decline and hence public expenditure could not be financed out of economic growth. Therefore, taxation was raised and an increasing disillusion among a substantial part of the public was the result of this move. At the same time there was also the belief that resources were not being distributed fairly and the welfare state began to be seen as a significant burden on the economy.

By the late 1970s Keynesian economic theories began to be challenged by economic theories that exposed the idea that the public sector had an unfair claim on real resources and was "crowding out" private sector enterprise. Public spending was seen by economic theories as a drain on the economy rather than a catalyst for economic growth.

These shifts in public and economic thinking coincided with the influence on conservative governments, including that of the UK, by Milton Freidman who argued that free market capitalism produced naturally both efficiency and freedom (Institute Personnel Management, 1988). This radical change in government's ideology led to the shrinkage of many government sector activities and privatisation, in its different forms, was a major plank in that ideology.

The above discussion although based on the reasons for the drive towards privatisation under the British experience is more or less applicable to the rest of Europe. However, due to the fact that the majority of literature originated from the USA suggests that 'Contracting Out' is an American idea that has found several applications in the United

[1] The GDP measures the total value of goods and services produced

Kingdom, a brief account of the factors that led to the interest in 'Contracting Out' in the USA is also important.

Kettl (1993) states that during the late 1970s there was a wide spread movement in the USA to limit taxes, which forced state and local officials to search for tactics to deliver government goods and services at lower costs. According to Kettl, privatisation proponents advocated 'Contracting Out' arguing that state and local governments were allowed to grow too big and lazy due to lack of competition; and that replacing government monopolies with private competition was the key to improving efficiency. Kettl also comments that 'Contracting Out' was a natural solution and state and local governments moved aggressively to contract out more and more of their services. By doing so, they discovered many problems inherent in government services provision and 'Contracting Out' proved to be not anti-government but a strategy that transformed government. Since its advent in 1972 and up to 1982, the value of government contracts let out to private sector tripled from US$ 22 billion to US$ 65 billion. The National Commission for Employment Policy (1988) estimate that 'Contracting Out' has been growing at a rate of 16% a year (cited in Kettl, 1993).

Furthermore, 'Contracting Out' for services represents an attempt to improve the responsiveness and efficiency of public sector, to minimise difficulties with public sector unions, and to shrink the size and role of the government (Johnston & Romzek, 1999).

In addition, E.S. Savas, an authority and a proponent of privatisation states that:

> *"The job of government is to steer, not row the boat. Delivering services is rowing, and the government is not very good in rowing".*

According to Department of Environment (1991) the reasons which led the British government to introduce and extend compulsory competitive tendering, which are also applicable to 'Contracting Out', were significant public criticism of the performance and efficiency of in-house staff. DOE adds that there was a belief that subjecting in-house provision of services to competition would disclose the true cost of carrying out the work and lead to greater efficiency in the use of resources.

The Institute of Personnel Management (1988) also states that according to a UK government review, there are five main reasons for considering 'Contracting Out' services. These are:

a. To save money,

b. To save management time,

c. To obtain expertise not available in-house,

d. To retain flexibility, and

e. To re-establish Management Control.

In addition, the Institute of Personnel Management cited the Adam Smith Institute of the UK saying that British local government had undergone a huge expansion over the 1960s and 1970s. The Adam Smith Institute reported that by 1982, local government's staff accounted for 12.5% of the total employed population, compared to 1.2% in 1890 and 5.6% in 1938. This expansion was seen as an out of step with the rest of the economy and has encouraged the British government to look at alternative solutions to this problem. 'Contracting Out' to private sector organisations was seen as the most viable solution in this regard.

Other arguments for 'Contracting Out' that are put by the UK pressure group, Public and Local Service Efficiency (PULSE) include:

a. The ability to test the effectiveness of an existing service against alternatives,

b. The incentive which competition brings to the existing service to cut costs,

c. Improvements in quality of service, because private contractors are prepared to invest in new equipment and methods of working to achieve savings and because the contractor knows that he will lose the contract if the customer is not satisfied.

Other researchers have also given other reasons for privatisation through 'Contracting Out'. Mays and Roy (1999) state that private company often brings in a level of specialisation that usually is impractical or too expensive to develop in-house and that there is also the difficulty of retaining certified staff.

Moreover, Bingman and Pitsvada (1997) comment that objectives of privatisation through 'Contracting Out' can also be improvements in the Government itself, such as: reducing the size of the workforce; cost savings from contracts or from subjecting government activities to competition; and acquiring skills and talents normally not available in-house.

In addition, Prager (1997) gives the lack of in-house technical expertise in government organisations as one of the main reasons for 'Contracting Out' in developing countries.

Other significant reasons for 'Contracting Out' cited in Siegel (1999) include: solving labour problems, sharing risk, obtaining higher quality service, providing services not otherwise available, experiencing shorter implementation time, and solving local political problems.

Despite the many reasons cited for 'Contracting Out' government services, according to Seidenstat (1999b) historically the major motivating force for 'Contracting Out' has been the prospect of cost savings. Hodge (2000) also found that while the general framework of privatisation stems from economic, social and political dimensions, "the primary rationale for 'Contracting Out' appears to be cost savings rather than increases in the quality of services or some other factors" (Chandler and Feuille, 1991). Moreover, Reeves (1995) contends that the potential cost savings provide the most common rationale for 'Contracting Out' government services. Also, Miranda and Andersen (1994) show cost savings to be the top reason/advantage of 'Contracting Out'.

3.5 Advantages/Benefits of 'Contracting Out'

3.5.1 General

The literature on 'Contracting Out' suggests a range of advantages and benefits, however, the most frequently cited advantages are cost savings, better quality services and improved efficiency.

The general theoretical background, in the context of privatisation, for these advantages has already been addressed in Chapter 2; however, the following sections provide an insight into these advantages in relation to 'Contracting Out' by critically evaluating previous studies in the field. An account of the other advantages or benefits reported in the literature is also given in this section.

3.5.2 Cost Savings

The most frequently cited advantage of 'Contracting Out' in the literature is the cost savings in comparison to the current operating costs of government in-house services.

The literature quotes many studies on the cost savings that have been carried out for different types of government services. However, the majority of studies have been in the field of refuse collection, as stated in section 3.3 *(Extent of 'Contracting Out')*.

Early studies carried out by Savas (1977), an early advocate of privatisation and author of several publications in favour of privatisation, discovered that competition tended to reduce costs of providing a range of municipal services in US cities by between 15% and 29%. However, Domberger and Jensen (1997) quoted Edwards and Stevens (1978) who found cost reductions to be as high as 41%, in some cases.

Studies carried out in the 1980s and 1990s suggest cost savings of 20-25% (e.g. Domberger et al, 1986; Domberger and Jensen, 1997: Seidenstat, 1999a). Other studies carried out during the 1990s like that of James (1992) and Reeves (1995) suggest cost savings of 20-30% while Savas (1995) cited in Seidenstat (1999a) suggests cost savings of 25-30% respectively.

In addition, according to Savas (2000) studies of before and after 'Contracting Out' carried out in the US, UK, and Germany demonstrate that the cost savings average 25% for the same level and quality of services, after taking into account the cost of administering and monitoring the contract. However, he states that such savings are not guaranteed and that every situation must be examined individually - but the probability of significant savings is high.

While some studies like that of Domberger et al (1995) suggest higher percentages of savings than the ones suggested above (ranging from 35 to 50 per cent), it must be stated that in a more comprehensive study Hodge (2000), while reviewing the literature on the effectiveness of 'Contracting Out', found that the likely overall savings from 'Contracting Out' amounted to 6 to 12% only. He also found that different services yield different cost reductions and that some are likely to yield none in reality. Hodge found that the largest cost savings were in cleaning, maintenance, and refuse collection.

On the reasons for such cost savings, Lopez-De-Silanes et al (1997) argue that the cost savings arise because private companies use less people, pay 10%-20% lower wages and offer less benefits to employees. Earlier studies on cost savings resulting from 'Contracting Out' like that of Cubbin et al (1987) do not support such an argument. The results of their research indicate that the bulk of the savings can be attributed to improvements in technical efficiency with which Uttley (1993) is also in agreement. In addition, Savas (1987) argues that private organisations are more efficient than government because of economies of scale and higher labour productivity, which in turn leads to reduction in operating costs. Also, Domberger and Jensen (1997) add that the bulk of savings are attributable to better management, more flexible working practices, more efficient use of capital and greater innovation stimulated by competition.

Kleiman and Sahu (1999) add that the public sector has no incentive to hold down production costs, whereas private producers who contract with the government, to provide services do. The lower the cost incurred by the firm the greater the profit that it makes. They argue that competition among potential private suppliers is expected to bring the lowest possible cost for the specified level of service and that lack of competition and profit incentives in the public sector does not lead to cost reduction.

Seidenstat (1999b) contends that one reason that 'Contracting Out' may improve performance is that reduced costs and improved service will automatically result from competition among private sector contractors. While government departments, carrying out the particular service in-house, do not face the threat of other producers taking their business away.

The benefits of competition materialise in the presence of a number of competitors. In such situations the price will be driven down to the minimum average cost. The existence of the threat of re-tendering as the contract expires creates a strong incentive for contract compliance and acceptable performance. On the other hand, the inability of the contractor to fulfil his contractual obligations or to withdraw before the completion of the contract will be a minor problem if other contractors are available to complete the job (Seidenstat, 1999b).

Seidenstat adds that without competition prices will not be driven down to a minimum. Without the threat of re-tendering, contract performance may be less than satisfactory and withdrawal of the contractor may create a major disruption in service.

3.5.3 Better Quality of Service

Another incentive to consider 'Contracting Out' government services is that it leads to better quality services.

Many of the studies stated above under the cost savings section have also assessed the impact of 'Contracting Out' on the quality of service, post 'Contracting Out'. While such studies have substantiated the accrual of cost savings as a result of 'Contracting Out', there is less consensus about its impact on the effect on quality of service. Some studies found that 'Contracting Out' led to a reduction in service quality and that contractors provide services below the specifications outlined in the contract (e.g. Ascher, 1987; Lee, 1991 cited in Hall and Rimmer, 1994). Other studies conclude that 'Contracting Out' does not have a measurable impact on service quality (e.g. Stevens, 1984; and Domberger et al, 1986).

According to Hall and Rimmer (1994) there is no clear agreement regarding the impact of 'Contracting Out' on service quality and that some critics argue that the price reductions after 'Contracting Out' lead to lower quality of service. Against this critic Domberger et al (1995), while testing the "quality shading hypothesis[2]", on 61 cleaning contracts of offices, hospitals and schools in New South Wales, Australia, found that while competition reduced price significantly, quality of service was maintained or even enhanced.

Others have also found that the quality of service was not sacrificed to achieve cost reductions after 'Contracting Out' (Kodrzycki, 1994 and Domberger and Hall, 1996).

While some studies argue that the impact of 'Contracting Out' on quality varies depending on the nature of the activity (Pack, 1989), other studies found that 'Contracting Out' can enhance the quality of service (e.g. Savas, 1977, Domberger et al, 1995 and Reeves, 1995).

According to Domberger and Jensen (1997) a study carried out by the Australian Industry Commission, provides a comprehensive view of the evidence on the quality of service. Its review was based on over a dozen international studies and had taken evidence from contractors, unions and other interested parties. It concluded that 'Contracting Out' leads to quality improvements and that such improvements "appear to be the result of much clearer focus on what is required in the service, improved performance monitoring and the ability to choose among alternative providers" (Industry Commission, 1996 cited in Domberger and Jensen, 1997). Also, Moore (1999) found that the quality of service has improved.

However, Hodge (2000) notes, (as a general rule), that 'Contracting Out' "does not reduce or increase quality" (pp. 156). Hodge (1998) found that both claims of improved services quality and reduced service quality after 'Contracting Out', do not have statistical support. Also, Dean and Kiu (2002) note that the quality outcomes resulting from 'Contracting Out' are open to debate and note that inconsistent findings with respect to quality highlight the challenges to managing contracted out services.

[2] Cost savings would only be achievable at the expense of quality of service (Evatt Research Centre, 1990 cited in Domberger et al, 1995).

From the foregoing discussion it can be said that the evidence on improved quality of service after 'Contracting Out' is not universally accepted. Different studies have arrived at different conclusions with quality varying between one type of activity and another.

3.5.4 Efficiency

One of the main arguments for governments to consider 'Contracting Out' is that the private sector is more efficient than the public sector. This issue warrants closer examination.

'Contracting Out' is about subjecting the particular service to market forces. Potts (1999) contends that the efficient use of capital is an important element of the market system. He argues that firms maximise profit per unit of capital by minimising the amount of capital required for production and maximising the difference between revenues and costs.

Cubbin et al (1987), in their study on identifying the sources of efficiency gains in 'Contracting Out' refuse collection, indicated that the majority of cost savings are the result of improvements in technical efficiency related to physical productivity of labour and vehicles. Savas (2000) argues that productivity gains result from more work performed per employee per unit time, not from lower wages. Savas cites the conclusions of a study of municipal services carried out by Stevens (1984) that the efficiency and the cost difference between public and private productions are because contractors:

- *Provide less paid time off for their employees (less vacation time and fewer paid absences such as unlimited sick leave);*
- *Use part time and lower skilled workers where possible;*
- *Are more likely to hold their managers responsible for equipment maintenance as well as worker activities;*
- *Are more likely to give their first line managers the authority to hire and fire workers;*

- *Are more likely to use incentive systems;*
- *Are less labour intensive;*
- *Have a younger workforce, with less seniority;*
- *Have relatively more workers and fewer supervisors.* (Pp. 157).

Stevens (1984) concludes "concepts of clear, precise task definitions and job definitions, coupled with easily identifiable responsibilities" in the private sector are responsible for the cost differences between public and private sectors (Cited in Savas, 2000, pp. 158).

Prager (1997) also, states that the wisdom of equating the private sector with efficiency and the public sector with inefficiency is soundly based. This argument is based on studies carried out over the years that compared private production with public sector production. According to Prager the most extensive comparison of these is that found in Boardman and Vining (1989) who summarise studies in a variety of industries ranging from electric utilities, to airlines to health related services. They found that in 32 out of the 38 studies considered, the private sector was found to be more efficient.

Prager gives the following arguments for the efficiency and the cost differences:

a) Government objectives are often complex, and profitability or efficiency is rarely a priority.

b) Public servants lack the financial incentives common to both hourly and salaried employees of private firms.

c) Top management is likely to be evaluated less on the basis of performance than on its willingness to conform to the wills of the political masters.

d) The state's budget allocation mechanism confiscates the profits of high performing SOEs to fund the deficits of the inefficient, thereby introducing perverse incentives into the structure of government organisations.

e) While the presumption that the lower the production costs of the private sector stem from greater efficiency, (which means more output for the same

amount resource input), observation suggests that the public sector may be a more generous employer in terms of wages and/or fringe benefits.

Kleiman and Sahu (1999) give similar reasons, for efficiency and cost difference between public and private sectors, to those stated above by Prager (1997) and Savas (2000).

Hodge (1999), in contrast to the above, argues that there is no "unequivocal evidence" on the efficiency of private sector in comparison to public sector. He states that the evidence available, while considerable, cannot be applied directly because of the difficulty in comparing production in the two sectors. Hodge cites two reviews, that of Borcherding, Pommerehne and Schneider (1982) and that of Kay and Thompson (1986) which came to opposite conclusions. The first one concluded that the private sector was "unequivocally, more efficient" while the latter concluded that the superiority of private sector performance could not be sustained. However, both studies agreed that efficiency is linked to competition and that the lack of it normally leads to less efficient production. In support of Kay and Thompson's conclusion is the conclusion of Boyne (1998). Boyne states that the empirical studies that suggest 'Contracting Out' services leads to higher efficiency is not valid, however, he suggests that 'Contracting Out' may lead to higher efficiency, but this could be the result of economies of scale rather than competition.

Dean and Kiu (2002) also state that efficiency is measured in direct financial terms or productivity and argues that there is a lack of balance in the number of studies that explore efficiency; however, they state that conclusions relating to efficiency result are in apparent consensus.

Moreover, one area where the private sector is known to take the lead over the public sector is in its flexibility to experiment with different technologies and approaches. Kleiman and Sahu (1999) state that private firms will more readily experiment with different production approaches, in comparison to government departments that tend to stick with the current approach since changes often create political difficulties.

One of the strengths the private sector has that it can respond very quickly to opportunities in comparison to the public sector which normally suffers from bureaucracy. While some might argue that there may not always be a suitable private

sector capability to undertake some of the contracted out functions, Bingman and Pitsvad (1997) state that the private sector has the spontaneous capacity to expand to create an adequate supply of providers to meet the need. They exemplify this by citing the example of the space program in the 1960s, the commitment to which instigated the evolution of a sophisticated new private sector space capability, and a host of new or expanded companies appeared that were willing and able to become involved.

3.5.5 Other Benefits

The above three sections detailed the main potential advantages of 'Contracting Out' although there is far from universal agreement on these. The following provides an account of other claimed benefits for "Contracting Out":

- It forces organisations to evaluate their internal cost structure (James, 1992);
- It enhances accountability of the service as the contractor faces the discipline of the market and is always in danger of not being renewed (Savas, 1987 cited in Hebdon, 1995);
- Better use of capital and innovation as well as flexibility (Steane and Walker, 2000);
- Leads to effective use of equipment and abandonment of restrictive work practices (Jensen and Lienbenberg, 1995 cited in Steane and Walker, 2000);
- Access to specialist expertise, latest technology and economies of scale,
- Flexible staffing to meet volume demands (just-in-time employees), and
- Reduction of training needs (Downey, 1995).

3.6 Implementation Problems

3.6.1 General

Section 3.3 *(Extent of 'Contracting Out')* has shown that 'Contracting Out' government services has had a wide range of applications over the last two decades. However,

reviewing the literature on the topic has shown, as with any new process, that its implementation has entailed certain associated difficulties. This section aims at exploring the difficulties and problems encountered in implementing 'Contracting Out' projects.

3.6.2 Bidding Process

According to Rehfuss (1993) most of the problems that have arisen in the 'Contracting Out' process have been the direct result of poor bidding. Both Kleiman and Sahu (1999), and Seidenstat (1999b) argue that competition might not provide the lowest price if only a few potential contractors can provide the particular service, or if a handful of potential contractors collude in bidding or form a cartel. Goodman and Loveman (1991) add that lack of competition for government privatisation contracts leads to higher costs and creates a perception of corruption.

In addition, many opponents express the concern over "low ball bids" as one of the problems of contracted out projects. "Low-ball bids" mean very low bids submitted by contractors with the intention of winning the contracts in order to make the government organisation dependant on them, potential losses are recouped either during the contract, by 'extras' and 'claims', or by raising the price significantly when it comes to renewing the contract (Pack, 1989; Rehfuss, 1993; Hebdon, 1995; Kleiman and Sahu, 1999; Savas, 2000). Savas (2000) states that such a practice is "a troubling scenario" that may take place from time to time. But he also states that the empirical evidence shows that it is not common.

3.6.3 Difficulty of Calculating Cost Savings Accurately

Many authors have commented on the difficulty of accurately calculating the cost savings as a result of 'Contracting Out' government services (e.g. Cope, 1995; Reeves, 1995; Prager, 1997). Cope (1995) notes that despite the potential for significant cost savings as a result of 'Contracting Out', calculating accurate cost savings creates a problem. He refers to a survey carried out by Marsh (1991) who concluded that

"different methods are used to calculate savings; often the studies assess expected savings rather than measuring actual ones; and sometimes the data is collected from interested parties, councils with an ideological commitment to privatise or even contractors who have won contracts" (cited from Cope, 1995). Cope found that all the three problems stated by Marsh were very evident in a case study of 'Contracting Out' school cleaning in the UK.

Prager (1997) also notes the difficulties in calculating the cost savings as a result of 'Contracting Out' stating that its cost saving nature can only be determined by properly calculating the total costs of the transition. In addition, Savas (2000) refers to that reliance on budgets to compare the cost of government and contract services does not normally lead to accurate results.

Rusten (1999) argues that the problem of ineffective management of the process begins with the inability to assess what the particular department is currently doing and what the cost of doing so is. This according to him leads to problems in quantifying cost savings.

3.6.4 Transitional Problems

Some problems can arise during the transitional stage from in-house provision to private contractor provision.

Unlike normal projects, 'Contracting Out' projects have specific problems that can arise during the transition from in-house provision. "Implementing 'Contracting Out' is an art and like any thing else, it needs guidelines" (Outsourcing Centre, 2002)

Transitional problems including labour problems, related to the affected in-house staff, start up problems or even total failure of the private contractor, might be costly and disruptive and may affect performance (Kettl, 1993; Prager, 1997; Seidenstat, 1999b).

Prager (1997) noting contractor's failure as one of the problems that could take place during this stage, states that although performance bonds protect the interest of the government department, contractor's failure leaves a gap in service delivery until alternative arrangements are made.

3.6.5 Management and Monitoring Problems

A major problem with the contracted out services, frequently reported in the literature, concerns the management of such contracts and monitoring of the contractor's performance in providing the particular service (e.g. Pack, 1989; James, 1992; Johnston and Romzek, 1999; Domberger and Jensen, 1997; Seidenstat, 1999b; Savas, 2000). Seidenstat (1999b) argues *"in the absence of effective contract monitoring, 'Contracting Out' may not work well, as contractors may deviate from the provisions of the contract or cheat on the quality of service"* (pp.245). Savas (2000) points to the importance of having the right skills to manage the process and monitor the contractor.

Johnston and Romzek (1999) exemplify problems with contracts management as; incomplete information; self-interested contractor behaviour, and poor performance.

Domberger and Jensen (1997) point out to the difficulty of monitoring public service contracts referring to some critics, which see the principal reason for failure of such contracts being the inability and/or unwillingness of government staff to enforce contract terms.

Gooden (1998), identifying the importance of effective contract management in light of the increasing use of 'Contracting Out', argues that not all managers have the level of expertise to manage such a complex process successfully. He states that many managers challenge 'Contracting Out' because they believe they are liable to lose control, authority, power and resources.

'Contracting Out' requires a systematic procedure to monitor the performance of the contractor, compare it to the standards in the contract, and enforce the contract terms. The lack of such monitoring could potentially be a factor leading to a poor quality of service, as found by many researchers (e.g. Hodge, 2000).

3.6.6 Difficulty of Measuring Service Quality after 'Contracting Out'

One of the noted problems of 'Contracting Out' government services is the difficulty of defining quality. Domberger and Jensen (1997) note that there are problems of measurement: "quality may be identified in terms of certain performance characteristics,

but their assessment may require subjective judgement rather than mere accumulation of facts". They add that comparing quality before and after 'Contracting Out' can rarely be made due to lack of data on service quality before 'Contracting Out'. Also, Kleiman and Sahu (1999) add that monitoring the service quality provided by the contractor also presents a problem.

Hall and Rimmer (1994) found that what is clear from existing research is the absence of performance evaluation mechanisms for measuring the service standards of contracts. Quality considerations present specific problems for those managing contracts. In addition, Dean and Kiu (2002) note that the difficulty in quality measurement is related to the difficulty in defining quality and the diverse application of the term. Dean and Kiu concluded that there is a strong link between performance monitoring and quality outcomes.

Sanderson (1992) states that private sector organisations often focus on objective technical dimensions of quality and subjective quality measures, derived from the opinions and views of customers (cited in Hall and Rimmer, 1994). Different firms might follow different strategies to assess service quality.

In addition Domberger and Rimmer (1994) state that, in 'Contracting Out', quality is controlled through a legally binding contract specification and that there are different techniques for measuring quality, including surveys of end-users, changes in inputs, the range and number of outputs and performance indicators such as a systematic assessment of user complaints.

However, Dean and Kiu argues that the different approaches for measuring quality suggested by other authors, and their effect on possible effects on quality outcomes, have not been fully explored.

3.6.7 Opposition and Effects on Existing Staff

Hirsch and Osborne (2000) state that one of the major factors that can limit the extent of implementing 'Contracting Out' is labour opposition. They comment for example that the US municipal unions have always resisted 'Contracting Out' services that are

traditionally performed by them. The claim put by these unions against 'Contracting Out' is that it often results in higher costs, poorer quality of service, loss of government flexibility and accountability, corruption and social costs. They argue that the public pays dearly for 'Contracting Out' in both economic terms, through increases in prices, unemployment and in social terms. Furthermore, women and minorities are affected by 'Contracting Out' as this group rely significantly on public employment as a means of social and economic advancement (McEntee, 1987 cited in Hirsch and Osborne, 2000).

On similar grounds to the labour opposition, other opponents of privatising government services argue that 'Contracting Out' leads to negative effects on government employees currently providing the services in-house (Ascher 1987; Kettl, 1993; Cope, 1995).

Savas (2000) also found that the principal impediments to 'Contracting Out' are loss of control and labour problems. He puts labour problems in the first place due to his belief that the fear of loss of control has diminished due to knowledge and experience with the process. He states that workers feel threatened about the process as "they are concerned about job losses, lower wages, fewer benefits, a changed work environment, bigger workloads, moving to a new location, different schedules, new bosses and so on" (pp. 286).

Hodge (2000) concludes that 'Contracting Out' appeared to lead to fewer people employed and some serious impacts on women part-time workers and minority groups, but he stresses that this is only in the short term.

However, Domberger and Rimmer (1994) comment that 'Contracting Out', although leads to losses for the public sector employees, they are normally compensated. They state that some public sector organisations require their contractors to re-employ a significant proportion of the work force and the remaining can be given redundancy payouts and/or be retrained and re-deployed elsewhere within the organisation. Domberger and Jensen (1997) also argue that 'Contracting Out' may improve employment opportunities by stimulating growth in the private sector.

Also, in a survey carried out by Moore (1999), investigating the impact of 'Contracting Out' on employment in 34 city and county services in the United States over a five-year time span, it was found that this was not the case. Moore's most important conclusion

was that few government employees lose their jobs because of privatisation and that in general their pay is not lower with the private contractor, but in many cases it is higher.

3.6.8 Corruption

The possibility of corruption in the 'Contracting Out' process is also an implementation problem reported in the literature (Kettl, 1993; Rehfuss, 1993; Prager, 1994; Hebdon, 1995; Seidenstat, 1999b; Hodge, 2000). Such corruption, as claimed by privatisation opponents, takes place in the form of kickbacks, bribery, conflict of interest, and collusive bids.

Hodge (2000) states that one major concern about the process is the possibility of corruption. He cites two major studies by Donahue (1989) and Kobrak (1995) who both argued that corruption is inevitable. However, Hodge concludes that empirical studies on the frequency of corruption have been sparse, though admitting its existence.

3.6.9 Low Service Quality

Some authors argue that the cost savings achieved through 'Contracting Out' public services are normally on account of reduced quality of service (Evatt Research Centre, 1990 cited in Domberger and Jensen, 1997; Hebdon, 1995; Ohlin, 1998). Hebdon (1995) for example argues that the reduction in quality of service after 'Contracting Out' stems from lower wages and benefits being paid by private contractors together with the cuts in training programmes that make it difficult to employ competent and experienced staff.

However, Moore (1999) in the study referred to above found that, in the majority of cases studied, the quality of service improved. This finding supports the earlier finding of Domberger and Jensen (1997).

Domberger and Rimmer (1994) argue that if quality deteriorates following 'Contracting Out', it could be a problem emanating from contract design or implementation, and that it can therefore be avoided.

3.6.10 Accountability Problems

Johnston and Romzek (1999) note that accountability "involves relationships in which an individual or agency is held responsible to answer for performance and involves some delegation of authority to act". Johnston and Romzek argue that there is a tendency in 'Contracting Out' to assume that contract management and accountability will take care of themselves or are easily achieved through contract monitoring. They state that this is not the case, and that anticipated results might not materialise if accountability is not carefully recognised. Hebdon (1995) also notes that 'Contracting Out' reduces public accountability.

According to Hirsch and Osborne (2000) accountability is more closely related to consequences when performance does not match the expected level or the necessary quality. They state that 'Contracting Out' is unlikely when accountability costs are very high.

Hodge (2000) concludes, based on his empirical findings, that "the question of accountability remains open" (pp.150), however, he states that there is some concern over the reduction in public accountability after 'Contracting Out', which is in direct contrast to perception of the greater accountability of 'Contracting Out'.

3.7 Previous Studies on Effectiveness of 'Contracting Out'

3.7.1 General

While previous sections have addressed the findings of earlier empirical studies on 'Contracting Out' as a method of privatisation, the motivating factors for adoption, the potential advantages, and the problems inherent in its implementation; this section considers specifically the previous studies on the effectiveness of 'Contracting Out' government in-house services.

3.7.2 A Sample of Studies on Effectiveness of 'Contracting Out'

Several studies have been carried out on the effectiveness of 'Contracting Out' (e.g. Savas, 1977; Edwards and Stevens, 1978; Domberger et al, 1986; Domberger and Rimmer, 1994; Reeves, 1995; Domberger and Jensen, 1997; Savas, 2000; Hodge, 2000). However, the most comprehensive research of these was that by Hodge (2000) who covered studies between 1974 and 1995.

Table 3.2 A Sample of 'Contracting Out' Effectiveness Studies

Author	Type of Service	Method of Analysis	Findings
Adie and McDavid (1999)	Solid waste disposal service in Canada	Cost analysis of survey of 28 municipalities	'Contracting Out' reduces costs significantly and improves efficiency.
Cope (1995)	School cleaning in Kent County Council, UK	Case study on schools cleaning	'Contracting Out' yielded cost savings but quality was not better.
DeHoog and Stein (1999)	Municipal services in the USA	Survey of large cities	Cost savings were achieved but quality was not guaranteed.
Domberger and Hall (1996)	A range of services in Australia and New Zealand	Surveys of state and commonwealth government agencies	Cost savings of 20% and 37.7% and services quality was not sacrificed to cost reduction.
Domberger and Jensen (1997)	A range of services world wide	Review of theory and empirical studies world wide	Cost savings range between 10-20% and 20-30% with improved quality of service.
Hodge (2000)	Mainly refuse collection, cleaning and maintenance services world wide	Narrative review of literature and Meta-analysis of international literature	Cost savings of 6-12% but generally 'Contracting Out' does not reduce or increase quality.
Moore (1999)	A range of services in the USA	A survey of 34 city and county services	Cost savings of 15-30% and better quality.
Reeves (1995)	Refuse collection in Ireland, UK	Survey of 87 local authorities	Cost savings of 26.3% and improved quality.
Savas (2000)	A range of services in USA, England, Germany, Japan and Switzerland	Surveys, before and after studies and cross sectional econometric studies	25% cost savings including all costs with same level and quality of services.

The author while reviewing the literature on effectiveness of 'Contracting Out' found several meaningful studies that were not covered by Hodge. Table 3.2 shows a sample of such studies providing information on author (s), type of service, country, method of analysis and the key findings of each. The findings of these studies have already been discussed in the foregoing sections.

3.7.3 Hodge (2000) Study

Hodge's study was based on reviewing previous empirical studies dating back to the 1974 and up to 1995. These studies were mainly from the US (66%), the UK (16%) and Australia (11%) in addition to studies from other countries. The types of services studied were mostly refuse collection, cleaning and maintenance services.

The method of review followed by Hodge was to present a brief narrative review of literature and a *'meta-analysis'* of the said studies. The narrative review contained a literature review of 'Contracting Out' all types of public sector services focusing on only those studies with an acceptable research integrity. Out of 129 potential sources of empirical evidence on the effectiveness of 'Contracting Out' Hodge selected 36 studies, which he considered were representative (Hodge, 1998, 1999 and 2000). The Meta analysis was based on 28 studies each of which included sufficient statistical data to test the significance between the different variables of cost of production when service is contracted out compared to when not contracted out for example. The Meta analysis used as its data the statistical measurements found in all available reports that investigated the effectiveness of 'Contracting Out'. It recognises that research studies usually report statistics such as Student's 't' test, which tests for the significance of observed variations in the test group compared to control group (Hodge, 1999).

Hodge's findings from the narrative review and Meta analysis have already been discussed in the foregoing sections of this literature review.

Although this section has claimed that Hodge's study was the most comprehensive one, Prizzia (2001), having analysed international case studies and various survey data compiled between 1991-2000, concludes that "effectiveness of most privatisation activities is based primarily, if not entirely, on economic measures of success" and "that

even within the narrow focus on economic measures of success, the overall effectiveness of privatisation is mixed at the international and national level". He stresses that there should be a balance between economic and social measures of success in determining effectiveness.

Prizzia found that "Contracting Out" is not a panacea to public sector services and may result in greater costs to the government in the long term and that the international literature and empirical findings do not support the premise that the process is always appropriate or effective.

3.8 Summary

The purpose of this chapter has been to address the theoretical background on "Contracting Out" as a method of Privatisation. The overriding aim has been to identify the key areas in relation to the implementation problems and effectiveness of "Contracting Out" projects so that "Contracting Out" projects at the author's organisation can be evaluated.

The detailed examination of "Contracting Out" as a method of Privatisation in this chapter involved looking at definition and history of 'Contracting Out', extent, and motivating reasons for adoption, advantages, and problems inherent in its implementation. The previous available empirical studies on the effectiveness of 'Contracting Out' government services have also been detailed.

The literature review in this chapter will be used to develop the research hypotheses and the effectiveness evaluation framework as will be seen in Chapter 7.

CHAPTER 4

RESEARCH METHODOLOGY

Chapter 4

RESEARCH METHODOLOGY

4.0 Introduction

Research into new developments within an organisation can be an extremely sensitive process. Although the researcher's experience with the studied process plays a major role in collecting data, the researcher is normally faced with difficulties accessing the required data and extra care is required in analysing and presenting data, which has a confidential component so as to provide some anonymity.

The process of embarking on a new research is a daunting one (Fellows and Liu, 1997). Walker (1996) notes that researchers struggle with the choice of an appropriate methodology for the research they are attempting to undertake. Searching the literature to see how others have done it might provide some guidelines however; different research areas provide different problems for the researcher.

This research is concerned with evaluating "Contracting Out" in-house services projects at the author's organisation with the aim of improving the present procedures and system. The research aims at establishing the implementation problems and successes of such projects and to arrive at a measure of the overall effectiveness of "Contracting Out" projects in meeting their stated objectives. The main objectives of the research are:

- **To establish the motivating reasons and perceived advantages/disadvantages for "Contracting Out" the organisation's in-house services,**
- **To assess the present "Contracting Out" projects at the organisation in order to identify problems inherent in their implementation,**
- **To evaluate the effectiveness of the organisation's "Contracting Out" projects.**

The aim of this chapter is to detail the research methodology used in the study, addressing the research strategy, research process, case studies structure, and the different methods used in the collection and analysis of data.

4.1 Research Strategy

4.1.1 General

Hussey and Hussey (1997) argue that there is no consensus in the literature on how research should be defined but they note that there is an agreement that "research is a process of enquiry and investigation; it is systematic and methodical; and research increases knowledge" (pp.1).

Hussey and Hussey note that the terms research methodology and methods tend to be referred to as of identical meaning by different writers. Hussey and Hussey distinguish between the two stating that *methodology* "refers to the overall approach to the research process, from the theoretical underpinning to the collection and the analysis of data". According to them *methods*, "refer only to the various means by which data can be collected and/or analysed" (pp. 54). They state that methodology is concerned with why certain data were collected; what data, from where, when, and how they were collected; and how they are going to be analysed.

Research strategy is defined in relation to how research objectives can be questioned (Naoum, 1998). Each strategy is a different way of collecting and analyzing empirical evidence, following its logic (Yin, 2003).

Different writers classify research strategies in various ways, however the most common distinctions is between qualitative and quantitative research. Although, many researchers use this terminology (e.g. Ghauri, Gronhaung and Kristianslund, 1995; Fellows and Liu, 1997; Phillip and Pugh, 1994; Marshall, 1997) Hussey and Hussey use the terms *Positivistic,* rather than Quantitative and *Phenomenological* rather than Qualitative.

Quantitative research is objective in nature and concentrates on measuring phenomena. It involves collecting and analysing numerical data and applying statistical tests (Hussey and Hussey). Fellows and Liu (1997) add that they involve making measurements by collecting data and that they are built on developed principles, laws and theories to help to decide the data requirements of the particular research project.

Examples of quantitative research include surveys, experiments, cross sectional studies and longitudinal studies.

Qualitative research on the other hand is subjective in nature and involves examining and reflecting on perceptions in order to gain an understanding of social and human activities (Hussey and Hussey, 1997).

Examples of qualitative research include case studies, action research, grounded theory etc.

4.1.2 Research Strategy Used

This research is primarily qualitative in nature based on case study research. The research is built around three case studies; two major in-depth case studies and one smaller case study of an earlier "Contracting Out" project. The selection of the three case studies is justified in Chapter 8 (Case Studies Preamble) where every case serves a particular purpose in the study. The three case studies were preceded by an exploratory stage where the motivating factors and perceived advantages and risks for "Contracting Out" the organisation's in-house services have been established.

One of the major problems in carrying out a research project is the decision on which methodology to use. Although the PhD by Portfolio-Professional Doctorate lends itself to the case study approach, difficulties can arise on what data would be most suitable for collection from the wide variety of data available, for the particular project and how such data can be analysed and presented. Hence, in qualitative based research using case studies, researchers often create new methods for their particular studies or they improvise or modify current approaches (Chenail, 1995).

4.1.3 Reasons for Selection

The regulations of the PhD by Portfolio require a "rigorous process of investigation of projects the author has worked on". For such an investigation to take place in-depth data have to be collected and an in-depth assessment undertaken. The case study approach suited this requirement as Fellow and Liu (1997) note "case studies encourage in-depth investigation of particular instances within the research subject" (pp.15).

According to Yin (2003), the use of a research approach depends on "the type of research questions, the control of the researcher over behavioural events and degree of focus on contemporary as opposed to historical events" (pp. 5, 6 & 7). A case study is

the preferred strategy when "how" or "why" questions are being asked and when the focus is on a contemporary set of events within some real-life context. In this study, the emphasis is on finding out why the organisation has opted for "Contracting Out" its in-house services and how far the initiative achieved its overall effectiveness in securing the organisation's objectives. Thus, case studies provide the best approach for this research. The projects selected for the case studies provide a holistic and meaningful reflection of the organisation's "Contracting Out" experience on which conclusions could be drawn on its overall effectiveness, which can answer the hypothesis set for the research.

4.2 Research Process

4.2.1 General

Fellows and Liu (1997) note the importance of a research process/path that links the different activities undertaken during the research with the goal of maintaining "coherence and complementarity" so that the results and conclusions are realistic.

Figure 4.1 shows the research process and sequence identifying the stages this research has gone through. Essentially the research entailed two stages as described in the following sections.

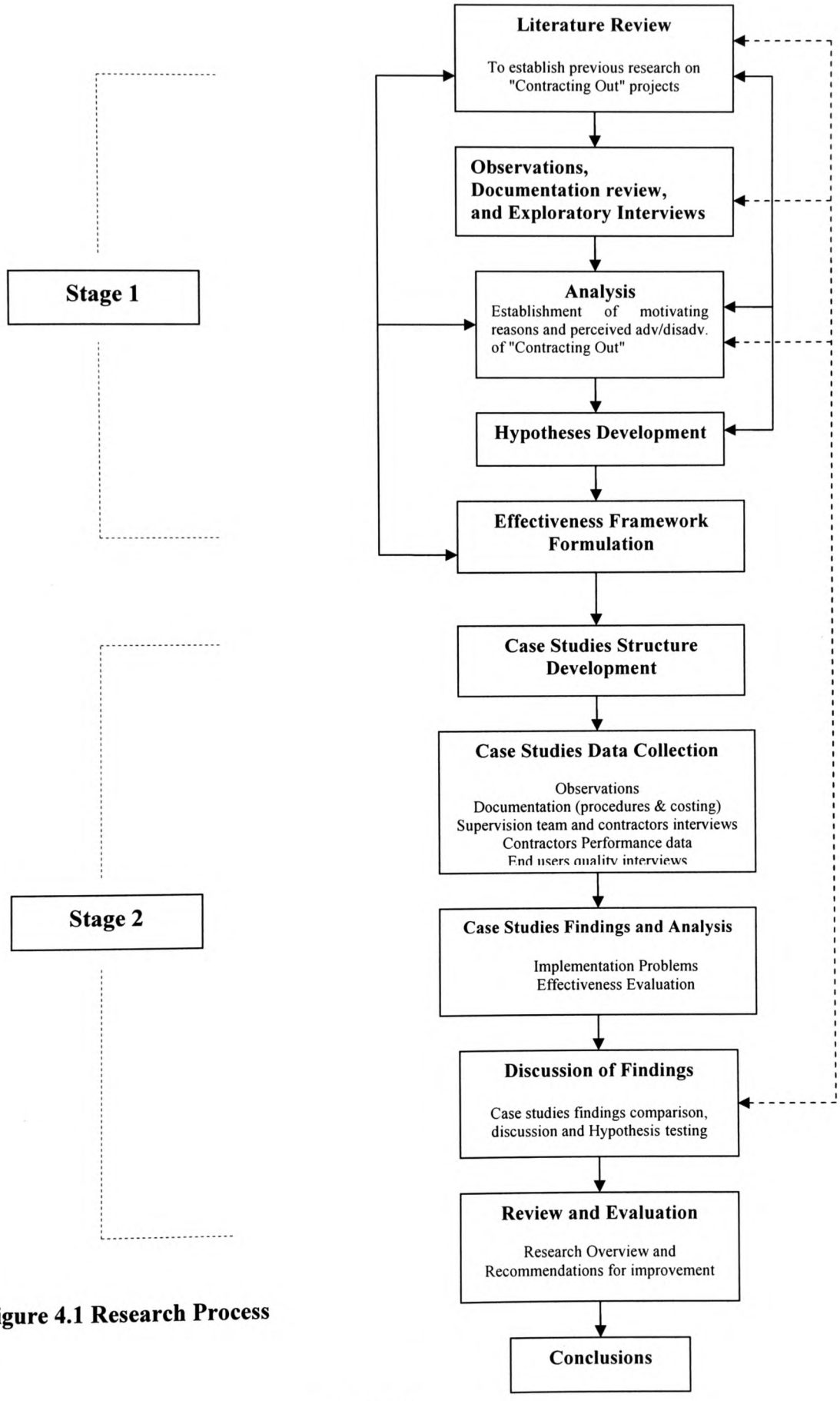

Figure 4.1 Research Process

4.2.2 Stage 1 of the Research

Stage 1 of the research entailed the following activities:

a) Literature Review

Noting the importance of theory in developing theoretical framework for the research as postulated by Fellow and Liu (1997) and Yin (2003) and other writers, a comprehensive literature review on the subject of "Contracting Out" as a method of privatisation was undertaken mainly in the UK during the author's visits to the University and by the extensive use of the Internet. The aim of this was to develop an understanding of previous and current work in the field based on the experience of other countries with the process. In addition, a literature search on the topic was also carried out specifically on Oman; however this only uncovered some general literature on privatisation in Oman but not on "Contracting Out" as no previous studies existed for Oman on this field of study. The literature review at this stage helped in understanding previous empirical research in the field and prepared the ground for the next activity of the research, including the exploratory interviews at this stage.

b) Observations, documentation review, and exploratory interviews

In addition to author's observations based on his experience, documentation review, and exploratory interviews with decision makers and senior managers within the organisation were undertaken. The aim of this was to establish the motivating factors and the perceived advantages/disadvantages of "Contracting Out" the organisation's in-house services in general. This was directed at answering the "why" question. The findings from this analysis will be compared with the actual results to arrive at the overall effectiveness of "Contracting Out", providing an answer for the 'how" question.

c) Analysis

The analysis of the data collected for this stage establishes the motivating factors for "Contracting Out" and its perceived advantages/disadvantages, and in parallel with the theoretical framework developed, assists in formulating the effectiveness evaluation framework.

d) Hypotheses Development

While some writers argue that in qualitative research using case studies no hypothesis is normally set for the research (Ghauri et al, 1995 and Yin, 2003), the author found it

necessary to formulate hypotheses based on the literature review and the findings from the motivating factors and perceived advantages, as a focus for evaluating the organisation's "Contracting Out" projects. This was important in providing the research with a clear direction. For the purpose of this research a main and three sub-hypotheses were generated from the theoretical framework and the analysis referred to at Para (c) above.

e) Effectiveness Framework

One of the main objectives of this research is to evaluate the effectiveness of "Contracting Out" the organisation's in-house services. In order to satisfy this, a framework had to be developed, as discussed at Chapter 7. Such a framework was developed based on the literature review and the findings from the analysis on the motivating factors and the perceived advantages/disadvantages of "Contracting Out" the organisation's in-house services.

4.2.3 Stage 2 of the Research

Stage 2 of the research entailed the following activities (see reproduced figure 4.1):

a) Case Studies Structure Development

Yin (2003) stresses the importance of having a protocol especially if more than one case study is undertaken. This stage started by structuring a protocol for the case studies as will be discussed in section 4.3 that will provide an easy and uniform systematic sequence for the case studies data collection, analysis and presentation.

b) Case Studies Data Collection

The next stage in the research process was the data collection for the three case studies. This required considerable effort and time, as will be discussed later in section 4.4.

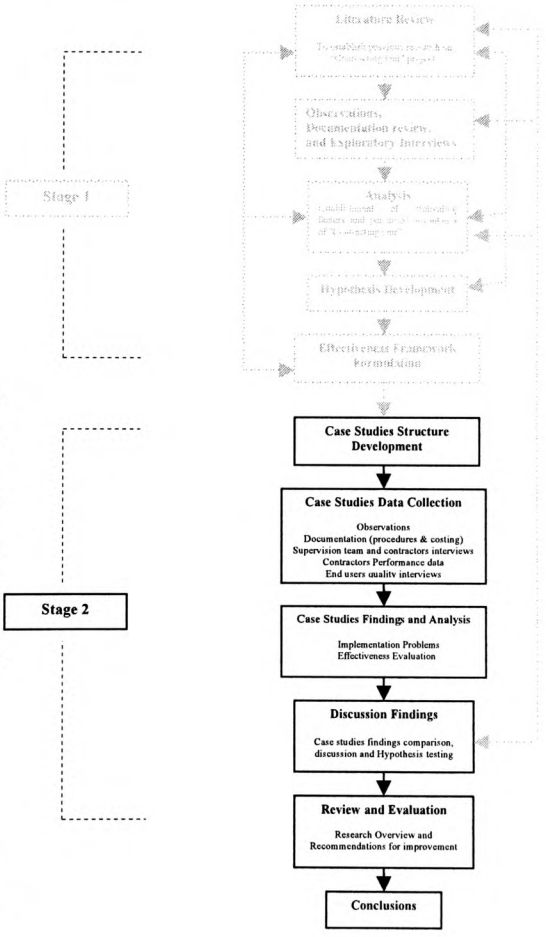

Figure 4.1 Reproduced

c) Case Studies Findings and Analysis

One of the important activities that took place during the Stage 2 of the research was the examination and analysis of the findings of the case studies in relation to the implementation problems and the effectiveness of each project.

d) Discussion of Findings

A comparison and discussion of the three case studies findings, in relation to the implementation problems and effectiveness evaluation, was carried out. The hypotheses examination in comparison with research findings was also undertaken highlighting major and new findings arising out of the research.

e) Review and Evaluation

In line with the requirements of the PhD by Portfolio and the overall aims of the research an overview of "Contracting Out" projects was provided and a set of recommendations to improve the present "Contracting Out" procedures and system in the organisation was proposed.

4.3 Case Studies Structure

This section addresses the structure of the three case studies used in this research with the aim of showing the protocol used for data collection, analysis and presentation of the case studies. A structure was developed for the case studies as shown on Figure 4.2. This structure has been prepared to address the following two main objectives of the research namely:

- To assess the present 'Contracting Out' projects at the author's organisation in order to identify problems inherent in their implementation,
- To evaluate the effectiveness of 'Contracting Out' at the author's organisation.

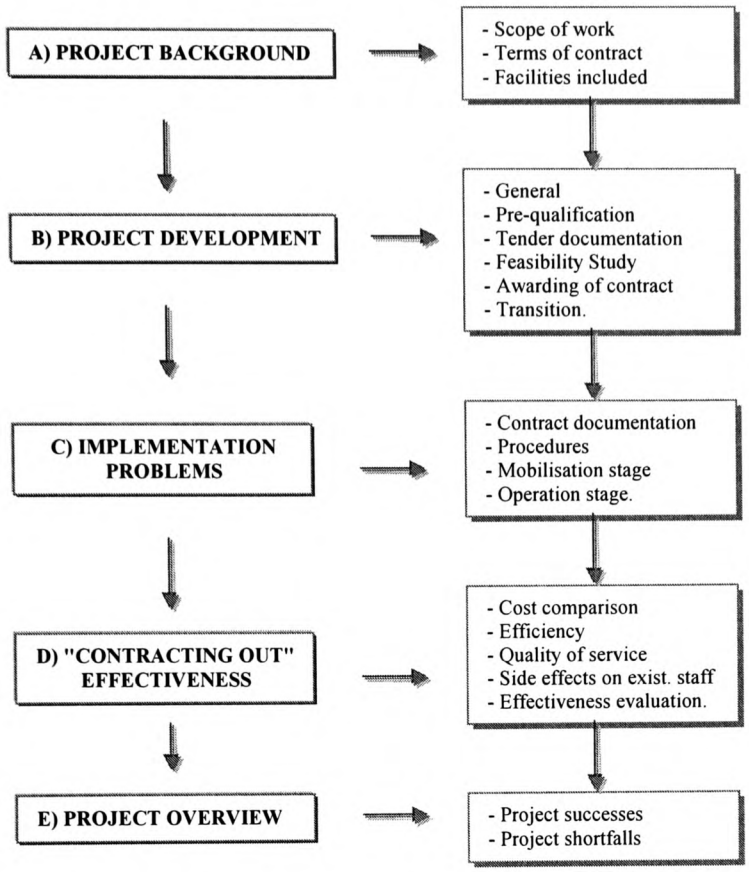

Figure 4.2 Case Studies Structure (route map)

Structuring the case studies in the manner shown at figure 4.2 served many purposes. The most important one was that it provided a systematic basis for the collection of data on the projects studied, for their different stages, and assisted in data analysis and presentation. Case Study 1 followed this procedure for the data collection but detailed analysis was not possible for the reasons discussed below.

As the author was not involved in Case Study 1 from its inception and that no comprehensive historic data for the project was available, no detailed effectiveness evaluation was undertaken due to limited data. The emphasis in this case study is on the project evolution and the major difficulties that were encountered during its implementation and what major lessons were learnt by the organisation from it.

As to the sections of the structure, sections "A" and "B" provide a brief profile of the project background and development stages it went through. This was considered necessary to sufficiently introduce the project, as this type of projects does not normally entail drawings, photographs etc as in the case of construction procurement projects.

Sections "C" and "D" have been designed to cater for the collection and analysis of data and to address the main objectives of the research. The literature on the implementation problems of "Contracting Out" projects showed that no comprehensive study has been carried on this issue. Therefore, this section has been structured to address the problems of documentation and procedure at the different stages a "Contracting Out" project goes through. However, the literature provided a comprehensive basis on which the effectiveness framework was formulated (this is elaborated further in Chapter 7). The last section of the structure, section "E", is an overview of the project, which acts as a summary for the main successes, and shortfalls of the individual projects.

The case studies structure is also used to explain the method of data collection for each and every stage of the case study, as will be seen in the next section.

4.4 Data Collection Methods

4.4.1 General

A data collection method is a technique of step-by-step procedure that is followed to gather data and analyse them for finding answers to the research questions (Ghauri et al, 1995).

The literature on research methodology suggests a wide range of methods for collecting data for research projects however, the main methods include: surveys, interviews, observations, diaries, questionnaire etc. These methods do not necessarily provide quantitative or qualitative data; it depends on how they are used (Hussey and Hussey, 1997).

Stage 1 of the field research involved collecting qualitative data in the form of documentation, and interviews to augment the author's observation based on his experience of "Contracting Out" projects. Stage 2, entailed collecting both qualitative and quantitative data. The qualitative data sources were observations, documentation, and interviews. The quantitative data are the cost comparison before and after "Contracting Out" and performance data on quality and efficiency before and after "Contracting Out". As Fellow and Liu (1997) rightly suggested "case study research may combine a variety of data collection methods, with the vehicle of study being the particular case such as a project" (pp.16). This triangulation of data improves the

accuracy of judgment and results (Ghauri et al, 1995). The use of multiple sources of evidence is one of the strengths of case study research compared with experiments, surveys, or other methods (Yin, 2003).

Each one of these methods has its advantages and disadvantages but they are highly complementary, and a good research strategy is the one that uses as many as possible of them (Yin, 2003). Perhaps this leads to avoiding the weaknesses inherent in a particular source when used unilaterally. Table 4.1 shows the strengths and weaknesses of the sources of data used for this research.

Table 4.1 Strengths and Weaknesses of Sources of Data

Source of Evidence	Strengths	Weaknesses
Documentation	- Stable and can be reviewed repeatedly - Unobtrusive: not created as a result of the case study - Exact: contains exact names, references and details of an event - Broad coverage: long span of time, many events, and many settings	- Retrievability can be low - Biased selectivity, if collection is in-complete - Reporting bias: reflects (unknown) bias of author - Access: may be deliberately blocked
Interviews	- Targeted: focuses directly on case study topic - Insightful: provides perceived casual inferences	- Bias due to poorly constructed questions - Response bias - Inaccuracies due to poor recall - Reflexivity: interviewee gives what interviewer wants to hear
Observations	- Reality: covers events in real time - Contextual: covers context of events - insightful into interpersonal behaviour and motives	- Time consuming - Selectivity: unless broad coverage - Reflexivity: event may proceed differently because it is being observed - cost: hours needed by human observers - Bias due to investigator's manipulation of events.

Source: Yin (2003) pp.86

This section details the methods of data collection for the research with reference to the stages of the research on figure 4.1 reproduced below for ease of reference.

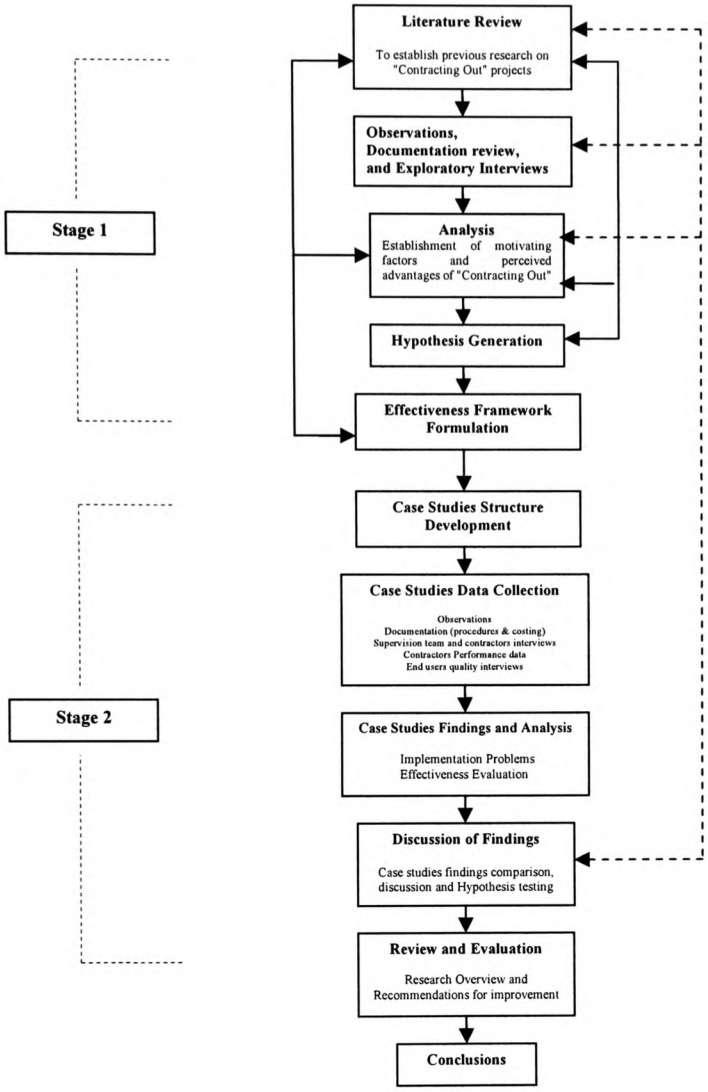

Figure 4.1 Reproduced

4.4.2 Data Collection for Stage1

General

The main objective of this stage of the research was to collect data in relation to the motivating factors and the perceived advantages and disadvantages of "Contracting Out" the organisation's in-house services.

The data collected for this stage was mainly qualitative, as discussed earlier, which started with a documentation review followed by exploratory interviews, in addition to the author's own observations based on his experience with the process. The following sections explain these in more detail.

Author's Observations

Author's financial and contractual management experience with the process played a major role initially in developing an idea on the motivating factors and perceived advantages and risks of "Contracting Out" the organisation's in-house services. This was gained by the author's participation in discussions with top management of the organisation (CEO) and by means of direct involvement, from an early stage, in gaining high authority approval, in addition to working on feasibility studies in collaboration with the organisation's Planning Office. An additional source of observation became available in the year 2000 when the author was selected by the then CEO to provide presentations on the organisation's roles and duties to a wide audience within the Ministry ranging from commanders, to senior and junior officers. Here the author became familiar with the challenges the organisation faced which motivated them to consider "Contracting Out" as a solution to those challenges.

In order to gain an additional insight into the issue the author undertook a documentation review, followed by exploratory interviews. This stemed from the author's belief that mixing experience with academic research methods leads to greater insightful and more robust results.

Documentation Review

Documents play an explicit role in any data collection in doing case studies (Yin, 2003). In order to augment evidence based on the author's observations, the field research was extended by collecting all data that concerned the organisation's decision to contract out its in-house services. This included the motivating factors and the weaknesses of the existing mode of operation. This proved to be difficult as the documents were very limited and considered highly confidential. However, the fact that the author received official approval, from a senior authority of the Ministry to carry out the research project, eased this problem. The volume of documentation found was very limited as, it seems, the decision to contract out was not properly documented. The documents used in the review included the following:

- Several minutes of meetings of a senior committee formed for discussing the implications of the first "Contracting Out" project at the organisation (MRAH project at Case study 1 of this research).

- Reports on the rationalisation of maintenance manpower, which highlighted some of the problems with the existing mode of operation.
- Report of a study on expenditure in administration and finance, which highlighted some of the motivating reasons for "Contracting Out".
- Correspondence between the organisation and higher authorities of the Ministry on approvals for "Contracting Out" the services at Case Studies 2 and 3.
- Auditors Reports on management issues arising out of "Contracting Out" the services at Case Studies 2 and 3.

It became evident at the end of this stage that the available documents were limited, which therefore necessitated interviews with concerned people to determine additional details on the motivating factors, and the perceived advantages for the change.

Exploratory Interviews

Exploratory interviews were considered necessary to gather additional data in light of the shortages of documents on the decision to contract out and the fact that no pervious research was carried out on the subject matter.

The exploratory interviews were in the form of semi-structured interviews, referred to by Yin (2003) as *focused interviews*, with senior officials, decision makers, managers and supervision team members that have been involved with "Contracting Out" the different in-house services in the organisation. The main objectives of the interviews at this stage was to corroborate the findings from the documentation review on the motivating factors for the move and to arrive at the respondents perceived advantages and risks of "Contracting Out" the organisation's in-house services based on their involvement with the process.

The selection of this type of semi-structured interviews, as opposed to structured and unstructured interviews, was justified on the basis that the issues to be addressed, people to be interviewed and questions to be asked, were determined before hand (Ghauri et al, 1995). Furthermore, the confidentiality of the subject matter in this case, necessitated the use of this type of interviews (Easterby-Smith, Thorpe and Lowe, 1991 cited in Hussey and Hussey, 1997).

The semi-structured interviews were based on a short questionnaire (See Appendix A) comprising of open-ended questions on the respondents' opinion on the reasons (motivating factors) for "Contracting Out" and their perceptions of the advantages and disadvantages of the move.

The questionnaire was piloted by means of conducting an interview with a senior officer from the Ministry's Internal Audit Department involved in preparing feasibility studies for "Contracting Out" the O & M and MSB&C projects at Case Studies 2 & 3. This pilot interview had two purposes. One was to check the applicability of some of the questions and the other one was to arrive at what the auditors believed to be the motivating factors and the perceived advantages and risks of "Contracting Out" the organisation's in-house services. Based on this interview some of the questions had to be amended, rephrased, or clarified.

The piloting was considered necessary based on the recommendation of many writers (e.g. Hussey and Hussey, 1997; Ghauri et al, 1995).

A total of 16 interviews were conducted at this stage, with senior officials, senior officers, and supervision team members of the organisation.

Some of the interviewees were allowed to fill in the questionnaire themselves after a brief introduction. However, the quality of response from this was not as good as that of face-to-face interviews with the researcher posing the questions. Therefore, some of the completed questionnaires were rejected and only 12 completed interview transcripts were used in the final analysis.

Some of the concerned decision makers had retired or left the organisation by the time this research was undertaken, but fortunately, the author had contact with some of them, which made it possible to arrange interviews.

4.4.3 Data Collection for Stage 2

General

Stage 2 of the fieldwork is the execution of the three case studies for the PhD. The data collection method will be discussed with reference to the case studies structure at figure 4.2, reproduced below for ease of reference. Each project followed the same sequence

including Case Study 1, although the case study analysis was not as comprehensive as the other two cases.

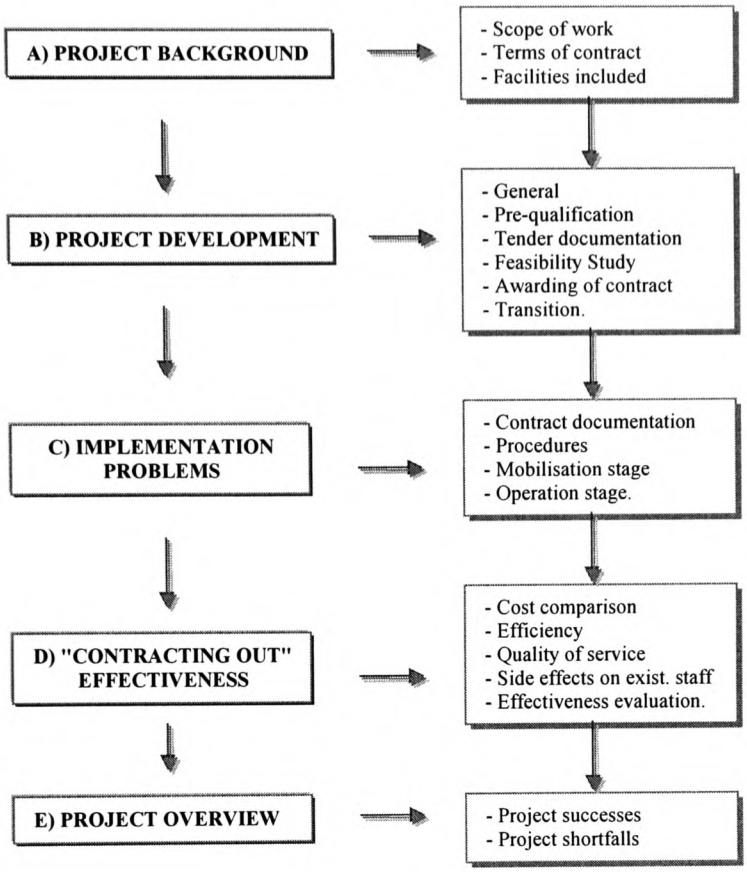

Figure 4.2 Reproduced

Project Background Data

This section of the case studies is concerned with background information on projects scope of work, terms of contract and the facilities included. The data for this section has been primarily based on contract documents review for the three projects.

Project Development Data

This section of the case studies sets the scene on how the project developed up to when the services were handed over to the successful contractor. The data for this section of the case studies has been based on reviewing the following documents:

- Tender documents,
- Pre-contract files,
- Tender advertisement and tender returns sheets,
- Feasibility studies and Auditors reports,
- Tender reports,
- Minutes of meetings of committees formed for the projects' pre-contract implementation stages,
- Letters of intent,
- Letters of award, and
- Projects inauguration and mobilisation minutes of meetings.

It is worthwhile mentioning that for Case Study 1 the exploratory interviews were also used to collect data on the project development, as there were instances when particular documents could not be found. However, a review of some of the documentation that was made available to the author at a later date was useful in discovering and correcting information collected from respondents during exploratory interviews.

Implementation Problems Data

This section of the case studies makes up one of the two main sections of the projects and relates directly to one of the main objectives of the research, namely, the implementation problems of the organisation's "Contracting Out" projects. The data for this section of the case studies has been based on the following:

Author's observations

Author's observation at this stage of the projects stems from his personal involvement in assembling the projects tender and contract documentation together with his involvement through out the different stages of projects implementation of pre-tender, tendering, mobilisation and operation stages.

Documentation Review

Although author's experience played a role in the identification of problems in implementing the three projects, the documentation review played a major role in enhancing and expanding on what has been developed based on previous experience. Here the author played an auditing role on the documentation collected for this stage, including documents prepared by him, to identify where problems occurred and hence what revisions could be incorporated for the benefit of future projects. The documents reviewed at this stage included the following:

- Tendering documentation including issued tender documents, tender addendums, minutes of post tender clarifications meetings etc.
- Scope of works, conditions of contract, and other contract documentations,
- Pre and post contract files,
- Feasibility studies and Auditors reports,
- Tenders technical appraisal reports,
- Tender reports,
- Reports on proposed deployment of affected in-house staff,
- Letters of Intent and award.
- Minutes of progress meetings between organisation's supervision staff and contractors.
- Special reports on disputes between the organisation and contractors.
- Reports on contractors' performance, and
- Projects annual reports.

In-depth Interviews

A major source of data for the "Contracting Out" projects implementation problems has been the in-depth interviews conducted with the supervision team members and contractors for the three projects.

The in-depth interviews were in the form of Semi-structured interviews, with the organisation's staff responsible for the monitoring and supervision of contractors'

activities followed by similar type of interviews with contractors. The main objective of the in-depth interviews was to corroborate the findings from the documentation review on the implementation problems under the different headings addressed in the case studies structure. They were also used to gather additional data on the actual implementation problems, to verify some of the findings of the documentation review and find out the perception of respondents on certain issues in relation to "Contracting Out" procedures, contractor's performance etc, based on their experience.

The selection of this type of interview has already been justified under Stage 1 above. However, this type of interview was time consuming and the author had a problem with using tape recording due to reluctance by respondents and sensitivity of data. Despite these problems this form of interview was considered necessary to, in fact, ensure that questions posed to respondents are well understood and any bias is exposed. The benefit of this type of interview was that any ambiguity of answers received from respondents could be clarified at the time and that any additional points arising out of the discussion are properly recorded and additional questions asked. Moreover, it served to augment personal findings from the project's documentation review on procedures and implementation difficulties. Furthermore, real benefits could be seen in the author identifying specific requirements that needed to be included into the contract documentation of future projects.

This type of interview has the advantage of developing an accurate and clear picture of respondents' behaviour (Ghauri, et al, 1995).

The in-depth interviews were based on a questionnaire consisting of seven sections (See Appendix B). Section 1 contained preliminary information on interviewees; section 2 contained general questions on "Contracting Out" procedures; sections 3, 4, 5, 6 contained detailed questions related to tender/contract documentation, supervision, mobilisation stage and operation stage respectively; and section 7 contained general questions to find out the perception of the interviewees on contractor's performance, improvements, efficiency, cost savings.

The detailed questions in sections 3, 4, 5 and 6 were prepared based on the documentation review of all pre and post contract stage files and other documentation, coupled with personal experience on the particular project; hence they addressed detailed findings from the documentation review. These in-depth interviews were

carried out for Case Studies 2 and 3 as insufficient data could be found about Case Study 1, and that the concerned staff had left the organisation by the time this research was carried out.

The same format of the questionnaire was used for Case Studies 2 and 3, but for Case Study 3 the detailed sections reflected the findings in relation to the documentation review for that particular project. Also, the contents of the detailed sections had to be amended to suit the field of responsibility of the interviewees, to make sure that questions are directed to the appropriate person.

The questionnaire was piloted by means of discussing its contents with a Senior Contracts Supervisor to check the clarity of questions raised. Based on this some of the questions had to be amended, rephrased or clarified.

Table 4.2 shows the total number of in-depth interviews carried out for this stage.

Table 4.2Profile of Respondents for Case Studies In-depth Interviews

	Supervision Team Members Interviewed	**Contractors Staff Interviewed**
Case Study 1	Nil (Full documentation was not available and concerned people left the org.)	Nil (Contractor was not available)
Case Study 2	4	1(joint)
Case Study 3	4	2

A separate interview was held with the security department of the base on which the O & M services at Case Study 2 were contracted out. This was considered necessary due to that the project was the first of its type and that the documentation review revealed some problems with procedures in this area that required to be clarified with the concerned department. For security implications on Case Study 3 discussions were held with concerned security officers of the particular camp.

"Contracting Out" Effectiveness Data

This section of the case studies represented the second main objective of the research. The aim of this section was to evaluate the effectiveness of "Contracting Out" the particular service under each case study. The evaluation was based on the comparison of

data before and after "Contracting Out" for the categories of cost, efficiency, quality, and affected staff. The data for this section of the case studies is discussed under the four categories identified; cost comparison, efficiency, quality of service and effects on existing staff:

Cost comparison

One of the major tasks in evaluating the effectiveness of the organisation's "Contracting Out" projects has been the cost comparison of the operating costs before and after "Contracting Out". In order to carry out such comparison and in addition to the extensive experience of the author with the "Contracting Out" process a review of the following documents took place:

- Auditors reports on current operating costs of the in-house services,
- Projects Feasibility studies,
- Lists of in-house manpower carrying out the services before "Contracting Out",
- Budgetary Reports on direct costs for in-house manpower,
- Reports on proposed deployment of affected in-house staff at time of feasibility studies preparation,
- Reports on deployment of affected in-house staff at the time of shifting facilities to contractor,
- The organisation's Staff Capitation Rate (direct manpower costs) report,
- Report of joint study between the author and CEO office on "Contracting Out" MSB&C project at Case Study 3,
- Post contract stage projects' files including payment records to contractors,
- Project's annual reports, and
- Reports on expenditure of spare parts, materials, consumables, lubricants etc.

During this stage and before actual calculations for the cost comparisons took place direct discussions were undertaken with concerned departments, especially Personnel and Finance, to verify the collected data on expenditure and manpower. Efforts were

also put into checking the actual deployment of affected staff to ensure the applicability of the anticipated cost savings.

Efficiency

Efficiency was the second element in the effectiveness evaluation framework. In order to compare the efficiency before, when the organisation's in-house staff were executing the services, and after the contractor assumed responsibility, the following data was collected and reviewed:

- Lists of in-house staff before "Contracting Out",
- Lists of contractors' staff,
- Performance data before "Contracting Out" (actual production units),
- Performance data after "Contracting Out" (actual production units),
- Costing data before and after "Contracting Out",
- Projects annual reports.

Quality of service

Quality of service was the third element in the effectiveness evaluation framework. The comparison of quality of service before and after 'Contracting Out' was made by collecting two types of data. The first one was by means of documentation review on performance statistics before and after "Contracting Out" and the second one was by means of interviews with the end-users. These two methods helped in exposing any bias in findings between one method and the other. Both methods are elaborated upon below.

Documentation review

The documentation review on the quality of services after "Contracting Out" covered the following performance statistics data before and after 'Contracting Out':

- Number of breakdowns,
- Average duration of breakdowns,
- Number of major complaints,

- Response time to emergencies, and
- Projects annual reports.

In addition to the documentation review, discussions were held with the supervision team members during the visits made by the author to project sites, the first one being at the start of the contract followed by three consecutive annual visits to the contracts sites.

Interviews

Short interviews were held with the end users to find out their opinion on the quality of service after "Contracting Out" compared with that before "Contracting Out". These interviews were followed by discussions of the findings with the supervision team members and who were also asked about their opinion of the service quality based on their day-to-day experience of the contractors' activities.

The structure of the interviews varied from one project to the other depending on the type of the services contracted out and the number of end-users. For example, the questions for Case Study 2 took the form of open ended questions on the general opinion of interviewees on moving the services to the private sector, general opinion on quality of service after "Contracting Out", response time etc. This was due to that the end user belonged to a single client of the organisation. On the other hand, the interviews for Case Study 3, although addressed the same contents, apart from additional questions addressing the average repair time and average time before repaired items broke, had to be based on closed questions due to the varied number of end-users (all services and units), the nature of maintenance services, and for ease of analysis (Appendix C shows quality of service questionnaires for Case Studies 2 and 3).

Table 4.3 shows the details of the interviews held with end-users on the quality of service after "Contracting Out".

Table 4.3 Profile of Respondents for Quality of Service Interviews

	End-users
Case Study 1	*3* *(Part of the exploratory interviews)*
Case Study 2	2
Case Study 3	21

The interviews were in Arabic although questions were drafted in English but translated by the author.

The respondents for Case Study 3 were not selected to be the individual end-users but the major clients (organisations) who are the focal contact points to whom the organisation is providing the maintenance services. The categories of these clients included Headquarters, Officers Messes, Major Depots, and a Hospital. These focal points are the ones in direct contact with the organisation's supervision team and they are the ones who normally lodge service complaints, not individuals. However, some discussions were also held with randomly selected individual end-users and the results were consistent with those collected from focal points.

The author's direct observations (being a resident on the same camp where the maintenance services were contracted out) on the quality of service for Case Study 3 had played an added advantage for cross checking bias against a personal evaluation of service quality.

Effects on Existing Staff

The findings on the effect of "Contracting Out" on the existing organisation's staff were arrived at by means of reviewing the staff deployment lists before "Contracting Out", checking their positions after "Contracting Out" through discussions with the relevant Personnel Department, and discussions held on site with supervision team members.

4.5 Data Analysis and Presentation

4.5.1 General

Analysing qualitative data presents many problems and difficulties compared with the available conventional methods of analysing quantitative methods (Ghauri et al, 1995; Hussey and Hussey, 1997).

Bearing this in mind and the qualitative nature of data collected no formal data analysis method was adopted. The qualitative data was presented by means of displaying the results and quoting extensively from the interviews. Hussey and Hussey (1997) emphasis that in a qualitative study (phenomenological) it is required to quote extensively from the data collected through interviews (pp67). However, the

quantitative data collected for the case studies were treated by means of an MS Excel calculation sheets format.

The following sections give an account of how the data collected for the two stages of the research were analysed and presented.

4.5.2 Analysis of Stage 1 Data

As discussed earlier the data collected for Stage 1 were totally qualitative in the form of observations based on author's experience, documentation review, and exploratory interviews for the motivating factors and the perceived advantages and risks of "Contracting Out" the organisation's in-house services.

During the interviews short hand notes were made based on respondents' answers to questions raised. This was followed by writing full scripts of interviews completed on the same day so that information discussed could be easily remembered.

The method used was to analyse all findings by means of making notes of the main issues arising out of the documentation review with regards to the motivating factors and perceived advantages and cross checking the transcripts of interviews and adding additional points arising from the review. This was done within the context of the theoretical background developed for the study. While presenting the data in Chapter 6 quotes were made from the interviews transcripts.

The main drives for "Contracting Out" were plotted against the number of respondents that thought the particular motive was the most important one. The results were presented in the form of 3 D graphs using MS Excel.

4.5.3 Analysis of Stage 2 Data

General

As discussed in Stage 2 of the research, the two main objectives of the research are the "implementation problems" and "effectiveness" of "Contracting Out" projects. The data collected for this stage were a mix of qualitative and quantitative nature. The qualitative data that were in the form of author's observations, documentation, and in-depth interviews were analysed in the same manner of the qualitative data of Stage 1 data.

However, here extensive quotations have been used from the interviews transcripts, to give a real context of the areas researched.

The quantitative data, which was mainly in relation to the evaluation of "Contracting Out" effectiveness, were analysed as detailed below.

Cost Comparison

A major element of the effectiveness evaluation was the cost comparison before and after "Contracting Out". This section of the case studies was the most difficult and time consuming one as the author had to audit the data collected and to devise his own methods of calculating and verifying the operating costs. Figure 4.3 shows diagrammatically the methodology used for the cost comparisons. The following paragraphs detail the steps it went through.

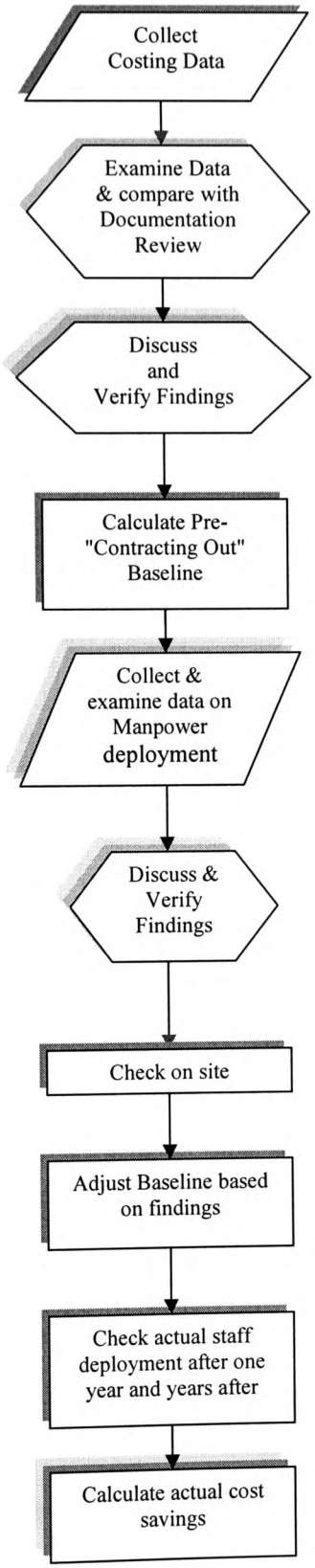

Figure 4.3 Cost Comparison Flow Diagram

Step 1: *Collect Costing Data*

This step involved collecting all the following costing data:

- Auditors reports on current operating costs of the in-house services,
- Projects Feasibility studies,
- Lists of in-house manpower carrying out the services before "Contracting Out",
- Budgetary Reports on direct costs for in-house manpower.

Step 2: *Examine Data and Compare with Documentation Review*

This step involved thorough examination and review of feasibility study reports and current operating cost calculation to arrive at the basis of calculation so that a comparison of this finding could be made with the findings of the documentation review with respect to what happened at time of awarding the contract.

Step 3: *Discuss and Verify Findings from Step 2*

The findings from step 2 above were discussed with concerned departments within the organisation for the purpose of checking accuracy and to clarify points arisen during the author's review.

Step 4: *Calculate Pre-"Contracting Out" Baseline*

In order for the cost comparison to be made, and due to the confidentiality of data used in this research, a common pre-"Contracting Out" baseline had to be calculated so that actual costs after "Contracting Out" could be compared with this baseline to arrive at the actual cost savings.

The base line was calculated using the following cost elements:

- Manpower direct costs (Capitation rates and shift and overtime allowances),

- Manpower indirect costs (cost of accommodation, medical and other subsidies),
- Material cost,
- Vehicles and plant cost, and
- Other related costs like painting and hired labour contracts.

The manpower direct costs were calculated by means of developing MS Excel sheets for the full manpower lists to arrive at the total operating manpower cost before "Contracting Out" (See Appendix D for a sample sheet). Although this was found to be very tedious and time-consuming exercise, it was necessary to arrive at a representative cost assessment.

The indirect manpower costs were calculated using two different methods. On Case Study 2, each element had a figure costed against it, while on the other hand; a 10% figure was assumed on Case Study 3. However, comparison between the two methods gave similar results; hence both methods were assumed to be correct.

The method of calculating the baseline was not identical for Case Studies 2 and 3 as the first was contracted out on the basis of manpower only while the latter was contracted out on the basis of manpower and material. However, the main manpower cost elements referred to above were more or less the same. (A sample of Excel sheets used in the calculations could be seen at Appendix D).

Step 5: *Collect and Examine Data on Manpower Deployment*

Step 5 involved collecting and analyzing data on in-house staff deployment at the time of handing over the facilities to the successful contractor in order to check for variations in this compared with that on which baseline calculation was made.

Step 6: *Discuss and Verify Findings from Step 5 and Check on Site*

The findings from step 5 above were discussed with concerned departments within the organisation for purpose of checking accuracy and to clarify points

in the author's review. The same was also checked on site for purposes of verification.

Step 7: *Adjust Baseline*

Based on the findings from the above stage necessary adjustments were made to the pre-"Contracting Out" baseline in order to pave the way for actual cost savings calculations after "Contracting Out".

Step 8: *Check Actual Staff Deployment*

Having adjusted the pre-"Contracting Out" baseline, and in order to arrive at the validity of the cost savings, actual staff deployment was checked after one year by reviewing actual manpower deployment lists and verifying the same during site visits with the concerned organisation's supervision team members to arrive at correctness of the same. The same was repeated for the following years of contract.

Step 9: *Calculate Actual Cost Savings*

On completion of all the above steps the actual cost savings were calculated by comparing the actual amount of money paid to the contractor in each year with the adjusted base line at step 7. Adjustments were made in the cost for each year after "Contracting Out" to reflect the findings from step 8 and other adjustments found necessary based on the documentation review; for instance in the additional cost of materials on Case Study 3.

The cost comparison methodology was slightly different for Case Study 2 compared with that of Case Study 3 as during the field research a major concern was raised by many respondents on the issue of high expenditure on spares after 'Contracting Out'. This issue attracted additional comparison in expenditure of spare parts, lubricants, chemicals, and consumables before and after "Contracting Out" for the first 2 years of Case Study 2 contract. The same principles of baseline calculation and verification were followed as could be seen in Case Study 2 at Chapter 10.

Efficiency, quality of service and affected staff sections

The analysis of remaining sections of elements of the effectiveness evaluation involved straightforward method of comparisons between before and after "Contracting Out" data with the use of MS Excel sheets for efficiency quantitative data on production units and costs and for quality of service on results from interviews with end-users.

CHAPTER 5

PRIVATISATION IN OMAN

Chapter 5

PRIVATISATION IN OMAN

5.0 Introduction

Privatisation represents an important feature of Oman's development plans in order to increase the role of the private sector in economic activities and to reduce the reliance on the public sector as a main provider of public services.

This chapter aims at highlighting Oman's experience with privatisation so far. However, this will be preceded with a general look at Oman's economy, the role of the private sector, and the Omanisation process.

Some of the data on Oman's economy and privatisation experience is based on the author's M.Sc. research (Al-Za'abi, 1996), but with updating and the inclusion of sections that were not covered in the earlier version, especially on 'Contracting Out' government services in Oman and Omanisation.

5.1 Oman's Economy

5.1.1 General

Lancaster (2001) reports that market oriented policies and private sector development are deeply rooted economic concepts and practices in Oman.

At the time when His Majesty Sultan Qaboos assumed power, in the 1970, the estimated Gross Domestic Product (GDP*) at current prices was only US $273 million. By 1985, it had reached US $9.1 billion. As a result of the sharp fall in the world oil prices in 1986, the GDP fell to US $7.27 billion. By 1990 it had recovered to US $10.65 billion and reached an estimated figure of US $13.77 billion in 1995[1]. The current Sixth Development Plan projects a GDP of US $19.91billion by the end of year 2005 compared to US $19.15 billion in 2000[2]. The per capita income in 2001 was estimated at US $7,787[3].

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* The GDP measures the total value of goods and services produced

[1] Statistical Year Books 1985-1995.

[2] Ministry of National Economy (2001) "Sixth Five-Year Development Plan 2001-2005: Basic Components and Main Indicators of the Plan". Oman: Oman Printers.

[3] Ministry of National Economy (2003) "Major Economic Indicators". [Internet] Available: http://www.moneoman.gov.om/economic.htm

Oman's economy is largely based on revenue from oil, although recent years have brought increasing diversification. According to James (2004) the average daily production of Oman is estimated at 710,000 barrels of oil a day in 2004. Despite the fact that recent years have seen a decline in dependence on oil revenue, from 80% in 1995 to 56.5%[4] of the total government revenue in 2004, still a major share of the country's revenue is derived from the production of oil, hence the economy is strongly influenced by the world price of this commodity. According to the latest estimates, Oman's proven oil reserves are 5.8 billion[5] barrels compared to 2.5 billion barrels in 1982 [6] and Oman's oil production is expected to last for another 45 years (Al-Rumhy, 2004).

Pinto (2000) points out that one of the major economic challenges facing Oman is reduced dependence on oil as the main source of revenue. In this regard he stated that the government has listed four key factors as being essential to the effort to ease Oman's dependence on oil. These are: diversification of the economy; development of human skills; effective exploitation of available natural resources; and creation of suitable conditions to encourage the private sector to take greater role in the economy.

5.1.2 Economic Development

A series of five year development plans have been launched since 1976 with three main objectives:

- To diversify the economy away from heavy dependence on oil into non-oil sectors;
- To shift investment from the public to the private sector; and
- To create a balanced distribution of employment opportunities by locating development projects near areas of population other than capital area.

Lancaster (2001) comments that "*Oman's development strategy places emphasis on economic efficiency, achieved through the maintenance of prudent fiscal and monetary policies and social stability, supported by a modern physical infrastructure and good welfare services*".

[4] Al-Lawati, A. D. (2004) "State budget 2004 comparative analysis". *Al-Markazi,* Vol 29 (1), Jan/Feb.
[5] Lancaster, P. (2001) " Meeting the 21st Century Challenges". *The Middle East*, No. 317, November
[6] Ministry of Information (1993) "Oman '93". Oman: International printing press.

Towards achieving the diversification objective, significant investments have been made in natural gas, minerals, agriculture, fisheries, industry, tourism and services sector. Average annual GDP growth rates were estimated at about 11.5 pre cent for non-oil sectors and about 5 per cent for services sectors during the Fifth Development Plan[7].

Exploration and commercialisation of gas reserves has had a high priority, with a joint venture with Shell and others to export Liquefied Natural Gas (LNG) from Oman which started during the year 2000. The LNG project has boosted the Omani economy on the path towards diversifying from oil revenues. Also, a manufacturing base to provide locally produced goods, initially as import replacement but later to export, will augment income from oil. The manufacturing sector has grown rapidly from a small base.

The current (Sixth) Development Plan emphasises the role of the private sector in boosting non-oil economy and in providing jobs for Omani nationals.

Provision of utilities has become increasingly important to support development, with further projects required to ensure electricity, water and other services can be provided in line with present and anticipated demand both for domestic and industrial use.

5.2 The Role of the Private Sector

The private sector plays an important role in any nation's economic growth and development.

The private sector in Oman has participated positively in the implementation of the development plans that aimed at building the country's infrastructure of roads, schools, hospitals and other essential services.

All previous Five-Year Development Plans have encouraged the participation of the private sector in the country's economic development. However, the Fifth and the current Sixth Development Plans put a greater emphasis on the participation of the private sector in the development process[8]. The government sees itself as a promoter of the private sector

[7] Ministry of National Economy (1996) "Basic Components and main indicators of the Fifth Development Plan (1996-2000).

[8] One of the Fifth five year plan objectives states: *"to encourage domestic and foreign private investment; and increase the private sector's share of investment in the plan to (53%) to foster the chances of success of the private sector based development strategies"*

and not a competitor with it. Its policy is to limit the role of the public sector to the activities that the private sector is unable to undertake[9].

One of the overall objectives of the current (Sixth) development plan has the private sector development as one of its basic dimensions[10].

Al-Kindi (2004) argues that the private sector is now taking a more active role in the development of infrastructure in Oman. He adds that privatisation and development of telecom, electricity, water sectors and wastewater system is a clear indication of the government's drive toward diversifying the economy and encouraging the private sector.

Furthermore, the privatisation programme envisaged by the previous and current Development Plans emphasised the government's commitment to extend private sector involvement in the country's infrastructure development programs.

5.3 Omanisation

Omanisation can basically be defined as the process of replacing expatriates with Omanis. However, Al-Hinai (1999) notes that there is no clear-cut definition for Omanisation in Oman and that the nearest definition is that provided by Ministry of Commerce and Industry (1995) which says *"Omanisation is the Government policy of making more employment opportunities for Omanis"*. Lamki (1999) defines Omanisation as *"educating, training and developing Omanis to take up jobs with competence"*. He adds that it should not be seen as a matter of replacing expatriates with Omanis.

As to the background on how Omanisation came about; discovery of oil in Oman back in the late 1960s and the prosperity that followed have led to high demand for labour force. The local labour market was not able to fulfil the requirement and the country's public and private sectors were flooded with expatriates from all over the world, but largely from the Indian Subcontinent, mainly Pakistan, India and Bangladesh, especially in the private sector. As the output of schools, colleges and school leavers rose the Omani government had to play a role in providing employment for its local people.

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[9] Ministry of National Economy (2003) "Major Economic Indicators". [Internet] Available: http://www.moneoman.gov.om/economic.htm

[10] Ministry of National Economy (2001) "Sixth Five-Year Development Plan 2001-2005: Basic Components and Main Indicators of the Plan". Oman: Oman Printers

According to the Ministry of Information (2003) the Omanisation programme has been in operation since 1988, working toward replacing expatriates with trained Omani personnel. By the end of 1999, the number of Omanis in the public sector exceeded the set target of 72%, and in most departments reached 86% of employees. The government has also stipulated fixed Omanisation targets in six areas of the private sector. Transport, storage and communications are to have 60% Omanisation, finance; insurance and real estate 45%; industry 35%; hotels and restaurants 30%; wholesale or retail trading 20% and contracting 15%.

Most companies have registered Omanisation plans. Since April 1998 a 'green card' has been awarded to companies that meet their Omanisation targets.

However, the government noticed that Omanisation was progressing slowly in the private sector, which led it to impose more stringent rules on companies by means of stipulating certain percentages of Omanisation companies have to fulfil. At the same time the government has increased its support to the private sector by means of subsidised training in order to help them meet the Omanisation requirements, which shows its commitment to the process.

His Majesty Sultan Qaboos has underlined the growing need for collective efforts to boost Omanisation, saying he would personally follow up the implementation of the recommendations of the 2001 National Manpower Employment Forum (Ministry of Information, 2003). Ministry of Information quoted HM, saying at a royal camp while addressing members of the State Council, the upper house of parliament, Majlis Al Shura, the Lower House, and dignitaries belonging to the Dhahira region, *"Forums and studies usually tackle hypothetical issues but the subjects of this forum are realistic and the implementation of its recommendations will be possible only if there is a concerted effort from the government and the other sectors of the community".*

Omanisation is a campaign meant, not only to ensure job for each citizen but also, to reduce dependence on expatriates in search of self-reliance in human resource. It has become the government's top priority more since the recent address by the Omani leader to the joint house of parliament, devoted as it was to the national manpower development.

In 2001, after the first National Forum on Omanisation, the government issued a new set of rules that stipulated a 30% Omanisation in the first year on construction projects with a 10% increase in the following years for services contracts. According to the Oman Daily Observer (2001) the government set up a national fund (Sanad) under the orders of HM to support small enterprises. Imposing such percentages and the setting up of such funds shows the government's keenness to provide job opportunities for Omani citizens and increasing Omanisation in the private sector establishments.

According to Al Balushi (2004) in the second National Forum on Omanisation of 2003 a partnership between the private sector and the government was labeled. During that forum Omanisation plans and targets together with a minimum wage requirement were presented by the various sectors of the economy. As a result of the second Forum the government has imposed new Omanisation levels for companies to meet. Such levels are projected to increase from 20% by end of 2003 to 30% by end of 2007 in the contracting sector for example.

5.4 Privatisation in Oman

5.4.1 General

The government's commitment in meeting development targets and economic growth has imposed a heavy strain on its financial resources. Capital resources necessary for financing new power stations or other infrastructure services was not there anymore. This has prompted the government to find new approaches in relieving its financial burden. Privatisation was considered one of the most feasible alternatives.

Oman has recently adopted far reaching economic policies in privatisation, both in terms of selling the government held assets and public establishments and the granting of concessions to establish, and manage, some of the basic service projects required by the citizens, such as power, water [11] etc.

[11] Oman Chamber of Commerce (1995) "Investment opportunities in the Sultanate of Oman". Economic research department.

5.4.2 Reasons for Privatisation

Since 1970 the government of Oman has been committed to meeting development targets and economic growth. The government development projects have been successful and have achieved the majority of their objectives[12].

However, with the economic changes and developments that have subsequently taken place in the international arena, these projects have suffered some difficulties. Amongst these difficulties were poor management and financial losses, inability to keep pace with the fast developments in technology and modern management. They have become a heavy burden on the government's budget, as they required continuous support in addition to the rise of internal bureaucracy.

Other main reasons for considering privatisation include[13]:

- The need to alleviate the fiscal crisis caused by the collapse of oil prices in 1986,
- The need to develop the private sector and attract foreign investment,
- To promote technology transfer and management expertise, and
- To reduce the financial burden on the government.

Al-Markazi (1998) also adds that according to the World Bank, state ownership in Oman has created three problems: the imposition of price control, non-flexibility of the wages and staff promotion policies and shortage of liquidity and financing. However, Al markazi (1998) stresses that "the sultanate's decision to go privatising was not the result of outside pressures (from IMF etc.) as happened elsewhere. It was taken voluntarily as an expedient of economic growth.

[12] Al-Maawali (2002) "Privatisation policy in the Sultanate of Oman: the present and future". Al Edari, A specialised Research Periodical (Arabic), Issue No. 91, December, Pp. 109-162.
[13] Ministry of National Economy (undated) "Privatisation".

5.4.3 Objectives of Privatisation

According to official data, privatisation was first contemplated by the government of Oman in 1987. No actions were taken however until 1993, when the main policy guidelines for the privatisation process were established. The policy was adopted with the following objectives in mind[14]:

i) To increase the volume and efficiency of the services provided to the society.

ii) To increase and direct national savings towards the production and services sectors.

iii)To reduce the financial burden imposed by these services on the government budget and to minimise the impact of public expenditure policies on the level of such services.

iv)To reduce the reliance of the national economy on public expenditure by increasing private sector investments.

v) To create new investment opportunities so as to attract and encourage small-scale investors.

vi)To attract technical and administrative expertise and technology through the encouragement of foreign investment.

vii)To increase rewarding employment opportunities in the private sector as a result of the expansion in size and scope of the services and the increase in efficiency.

viii)To diversify the sources of income and broaden the production base of the country.

ix)To reach a balanced relationship between the roles of government and private sector towards community, and to establish a partnership between the two sectors in order to achieve sustainable development.

The Vision for Oman's economy 2020[15] has focused on the policy framework for privatisation with a view to:

a) Encourage domestic and foreign private investment;

[14] Source: Ministry of National Economy.
[15] Ministry of National Economy (1995) "Vision for Oman's Economy: Towards a Better Economic Future, Conference". Oman.

b) Reduce government's role in the areas of production and services;

c) Strengthen the role of the private sector in these fields.

The Basic Components of the Sixth Five-Year Development Plan (2001-2005)[16], under its overall objectives, include the following:

- Special attention shall be given to the privatisation programme, enhancement of its processes so as to reduce the national economy's dependence on public spending, encourage private sector investment, provide competitive environment and improve the efficiency of the national economy.

- To increase the private sector share in GDP through participation in the industrial programme related to natural gas based projects in addition to strengthening its activities in its traditional fields of investment and raising its productivity.

It follows that privatisation is conceived as an integral part of a much broader long term planning effort. This can be seen in the objective of the Sixth Five Year Plan which projects the private sector's share of total investments during (2001-2005) to be 53.9%. This figure implies that the total private sector investment, during the Sixth Plan period, exceeds the total public sector investment, a figure never envisaged in previous plans. In addition, and most importantly, the privatisation programme during the Sixth Plan period pictures an investment of nearly R O 396 million (US $1.03 billion)[17].

All of these policies of encouraging private sector participation in the economic development will certainly play a major role in the success of the privatisation programme in Oman.

However, it must be stressed that despite the fact that there is a great interest in privatisation in Oman, the Government is not relinquishing its social or economic responsibilities towards the public.

[16] Ministry of National Economy (2001) "Basic Components and main indicators of the Sixth Five Year Development Plan (2001-2005), January.
[17] Ministry of National Economy (2001) "Basic Components and main indicators of the Sixth Five Year Development Plan (2001-2005)", January.

5.5 Oman's Privatisation Experience

5.5.1 General

Since the advent of privatisation in Oman many industrial and service sector projects have been privatised. According to a survey carried out by United Nations Economic and Social Commission for Western Asia ESCWA Region for 1998-1999[18] Oman has taken the lead in the privatisation efforts in the region.

Oman has had experience in all different types of privatisation however, as noted earlier by the author, the literature on privatisation in Oman refers mainly to the sale of government owned establishments (SOEs) and infrastructure privatisation through the BOT model as the two dominant privatisation methods.

This section seeks to provide an overview of Oman's experience with the different types of privatisation.

5.5.2 Sale of Government Owned Establishments (SOEs)

The government of Oman started implementing this type of privatisation back in 1994 (Azzam, 1995). According to Azzam major public sector firms that were privatised include divestment of the shares of Gulf Hotels Company (34%), Oman National Insurance Company (15%) and National Bank of Oman (20%). Oman flour mills and cement companies have also been privatised.

There are also other government owned companies currently under study for potential privatisation. Examples of these include the disposal of some of the government's shareholding in commercial undertakings like Oman Cement Company and Oman Flour Mills during present Sixth Development Plan (2001-2005)[19].

[18] Cited in Ministry of National Economy (2003) "Oman: the development experience and investment climate". Fourth Edition.
[19] Ministry of National Economy (2003) " Oman: the development experience and investment climate". Fourth Edition.

5.5.3 Infrastructure Privatisation (BOT) Projects

Private financing projects through the BOT and similar approaches, form an integral part of the Oman's privatisation programme (Al-Za'abi, 1996). Since the advent of privatisation in Oman many projects have been offered to promote private sector involvement. These projects cover a wide range of sectors including power, wastewater treatment, water supply and transport infrastructure. Table 5.1 shows a list of BOT projects executed and are operational.

Table 5.1 BOT projects in Oman

Project name	**Scope**	**Cost** (million US$)
Manah Power project	Build, own, operate and transfer (BOT) a 90 MW power facility at Manah	217
Expansion of Manah Power Plant	Expansion of Manah Power Station from 90MW to 285MW	186
Al Kamil Power project	Build, own, operate (BOO) a 275 MW power facility at Al Kamil	114
Barka Power and De-salination project	Build, own, operate (BOO) a 427 MW power and 20 million gallons per day water facilities at Barka	456
Salalah Power project	Build, own, operate and transfer (BOT) a 200 MW power facility at Salalah	260

Source: Al-Za'abi (1996), Al-Maawali (2002), and Ministry of Information (2003)

Power Supply Projects

Demand for power is growing rapidly in Oman due to economic growth and residential demand. The growing gap between supply and demand has made the privatisation of power projects increasingly urgent. As a consequence, in 1994, the government put out an internationally competitive tender to build a power station at Manah. The project was awarded, (based on 8 pre-qualifying bidders and 3 final bidders), to the least cost

tender (US $217 million) based on the combined cost of generation and transmission[20]. The successful bidder, United Power group, comprises Tractebel group (a Belgian electric and gas utility), and a consortium of four local enterprises led by National Trading Company LLC. The Group entered into an implementation agreement with the government of Oman which provided for a construction period of 2 years, followed by a 20 year operation franchise under the terms of a Power Purchase Agreement. The project has been in operation since 1996. This power station was further expanded in 1999 to 285MW capacity on the same BOT basis.

The Manah project, which was the first BOOT project in the Gulf, was seen as part of a longer - term strategy by the Omani government to increase the portion of power and desalination facilities in private hands. Based on the experience of Manah Power project, other power projects have already been privatised, as shown on table 5.1.

Recently the government has started restructuring the power sector and setting up independent commercial companies. According to the Minister of National Economy[21] the process of restructuring includes establishment of electricity holding companies, independent regulatory body and passing a new sector law.

Water Supply Projects

Al-Za'abi (1996) found that, in the water supply sector, the government has in the past attempted to implement a project to develop the Al Masarrat aquifer [water reservoir]. This was found, through research by the government, to contain vast quantities of water and; to provide drinking water supply to some Wilayats in North-Western part of Oman.

The project that was aimed for build, own, operate and transfer (BOOT) method was not found to be feasible. In 2000 the government formed two committees, one for this project and the other one for a similar project in Al-shrqia, to establish two companies

[20] Source: Oman Investment Services SAOC (1994) "Prospectus for United Power Company". Oman.
[21] Macki, A. A. (2004) "A Promising future". *Oman Economic Review*, January.

to operate the two projects on a commercial basis in order to be privatised at a later stage[22].

Waste water

Similar attempts were also made for the BOT model in the waste water sector (Al Za'abi, 1996). However, the government decided to establish two separate commercial companies. Salalah Wastewater Company was established in 1998 and Muscat Wastewater was established in 2002[23]. Both companies have been established to work on a commercial basis in order to be privatised at a later stage.

5.5.4 Management Contracts

In 2001 the government awarded the privatisation of the management of its international airports at Seeb and Salalah on a 25-year concession basis. The agreement requires the investors to commit their investments for the construction of a new terminal by 2006, and associated facilities and quality service over a longer term[24]. However, this move has recently gone into trouble due to inability of investors to raise necessary funds and the Omani government has decided to buy all foreign shares.

Other management contracts include the privatisation of the management of Salalah Port, in 1997, and Sohar port, in 2002.

5.5.5 '"Contracting Out"' Government In-house Services

As noted earlier by the author there is little literature on this type of privatisation in Oman. Azzam (1995) notes that the public services that have been transferred to private operations include cleaning contracts, billing and collection for water and electricity, and maintenance and operating contracts for water and power facilities.

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[22] Ministry of National Economy (2003) " Oman: the development experience and investment climate". Fourth Edition.

[23] Ministry of National Economy (2003) " Oman: the development experience and investment climate". Fourth Edition.

[24] Ministry of National Economy (2003) " Oman: the development experience and investment climate". Fourth Edition.

However, observation also shows that other in-house services have been contracted out by government departments in Oman including:

- Catering services especially in hospitals,
- Laundry,
- Unpaved roads maintenance,
- Landscaping Maintenance,
- Passenger lifts maintenance,
- Operation of Slaughter Houses,
- Building maintenance,
- Security guards for hospitals and other government departments.

5.5.6 Other privatisation projects

Other privatisation efforts in Oman include the following sectors[25]:

a) Telecommunication Sector

The government has transformed the previous government undertaking (GTO) into a commercial company aiming at corporatisation as a first step leading to privatisation.

b) Postal Sector

A study is being conducted to develop and reform the postal services in order to introduce commercialisation as a step towards privatisation.

[25] Ministry of National Economy (2003) " Oman: the development experience and investment climate". Fourth Edition.

c) Hazardous Waste

In 2003 the government formulated its plans for the possible introduction of services to deal with hazardous waste treatment disposal management through the process of privatisation.

d) Surface Transport

Studies are underway to look at options of restructuring the Oman National Transport Company as a step towards privatisation at a later stage.

5.6 Oman's Privatisation Fuel for Success

It is recognised that these privatisation efforts require both technical and financial support from overseas investors. The participation of foreign investors is, therefore, fully encouraged through the many incentives provided.

Oman provides several advantages and incentives to encourage the participation of foreign investors. These include[26]:

- 100% repatriation of capital and profit.
- No foreign exchange control.
- A stable and convertible currency.
- Custom duty exemption on imported machinery and raw materials for development projects.
- A well developed banking and legal system.
- Subsidised electricity, water and energy tariffs.
- Income tax exemptions for local and foreign companies for the first 5 years with a possible extension to further 5 years.

Several of the risks involved in privatisation projects are country specific. As to country commercial risks, Oman has a strong and fully convertible currency. There are no

[26] Oman Chamber of Commerce (1995) "Investment opportunities in the Sultanate of Oman". Economic research department.

foreign exchange controls and no restrictions on repatriation of capital and profits. Oman has followed a monetary policy, which has kept inflation under strict control.

Oman has liberal laws and regulations governing foreign investment. The Foreign Capital Investment Law was amended in 1994 to encourage the participation of foreign investors in the country's infrastructure development. The foreign capital share in a company can be increased from 49% to 65% and even up to 100% of the company's capital, for projects which contribute to the development of the national economy[27]. The recent Royal Decree No. 77/2004 allows a 100% foreign capital share in privatisation projects.

Oman is politically stable. It has a strong and creditable government and strong policies for encouraging private sector participation in growth and development.

As to the most recent worldwide country risk-ranking Oman is ranked 26 out of 140 countries; with Norway ranked 1, UK 15, Iraq 139 and Zimbabwe 140. According to this ranking Oman is a very low risk country and indeed it is the 3rd lowest risk country in the whole of the Middle East; with Kuwait at 13 and United Arab Emirates at 22[28].

5.7 Summary

Privatisation in its different forms represents an important feature of government's policy in Oman. The country offers vast opportunities for privatisation in its different forms.

The government encourages private sector participation in the development of the country's infrastructure projects; however, it still acts as an overall regulator in order to protect the interest of the public.

Despite the fact the privatisation is a relatively new concept in Oman; it seems to be gaining momentum especially in sectors like power supply, water supply sewage systems, airports and ports management and other services sectors. However, it will take quite a long time for the privatisation concept and function to be fully understood.

[27] Ministry of Commerce and Industry (1995) "Foreign Investment Capital Law". Oman.
[28] International Country Risk Guide (2004), Volume xxv, No. 10, October, USA: The PRS Group Inc.

CHAPTER 6

MOTIVATING FACTORS AND PERCEIVED ADVANTAGES

Chapter 6

MOTIVATING FACTORS AND PERCEIVED ADVANTAGES

6.0 Introduction

This chapter aims at establishing the motivating factors for considering 'Contracting Out' the organisation's in-house services and its perceived advantages. The potential disadvantages/risks involved with the process shall also be discussed. However, this is preceded with some background on the organisation and its 'Contracting Out' experience so far.

The discussions in this chapter are based on the author's observations, findings from the documentation review of 'Contracting Out' projects within the organisation, and the face to face exploratory interviews held with senior authorities of the Ministry, senior officers (decision makers) within the organisation and senior personnel involved with overseeing the process.

6.1 The Organisation and its 'Contracting Out' Experience

6.1.1 The Organisation

As addressed in Chapter 1 of this dissertation the organisation is a department of the Ministry of Defence (Oman) responsible for the general engineering and maintenance support for the Ministry and the Armed Forces. Its role involves the provision of essential services of power, water and sewage treatment to all camps belonging to the Ministry. Its role also involves the design and management of construction projects and services contracts on behalf of the Ministry and the Armed Forces. Moreover, the organisation is also responsible for the operation and maintenance of all power, water, and sewage treatment plant and air-conditioning facilities in all camps. In addition, the organisation is also responsible for the maintenance of existing buildings and infrastructure.

In carrying out its major responsibilities mentioned above, the organisation faces many financial and operational challenges. The main challenges it faces in executing its duties as required are:

- Financial burden resulting from increased infrastructure without increasing the operation and maintenance budget.
- Inability to carry out the preventive maintenance of its infrastructure and equipment as programmed due to budgetary constraints which increases the maintenance burden.
- Majority of infrastructure is old and its maintenance is consuming a big share of the organisation's budget.
- Shortage of qualified local workforce for the operation and maintenance activities.
- The advances in technology the organisation has to cope with, as it has to provide the engineering support for all the up to date equipment it procures for the provision of services to the armed forces.
- Natural disasters especially heavy rains leading to damages to the infrastructure and the consequent cost of restoring it to its original condition.

The above challenges led the organisation to review its strategy and to find possible means of providing cost savings in order to resolve difficulties it faces as a result of these challenges. In addition to streamlining its resources and other means, the organisation considered studying the possibility of 'Contracting Out' some of its in-house services as an important option in this regard.

6.1.2 'Contracting Out' Experience

The 'Contracting Out' efforts at the organisation started in 1993. The first services contract awarded to a private sector company was the Maintenance of Graded Roads, Airstrips and Helipads (MRAH). This was followed by 'Contracting Out' Catering Services to the organisation's junior staff messes and Painting Works in 1996. However, a major move that the organisation embarked on in the late 1990s was in the field of 'Contracting Out' the Operation and Maintenance (O & M) services of its power, water, sewage treatment and air-conditioning facilities. The experience of the O & M project, and the need to find further savings and improved efficiencies in other areas of its operations prompted it to contract out more services like the Maintenance Services of

Building and Civil Works project (MSB&C) and to study the possibility of 'Contracting Out' other existing maintenance services.

The in-house services so far contracted out in the organisation are as follows:

- Maintenance of graded roads, airstrips and helipads,
- Termite treatment works to existing buildings,
- Painting services for existing buildings,
- Landscaping maintenance,
- Cleaning services of the organisation's Headquarter Building,
- Catering services to junior staff messes,
- Passenger lifts maintenance,
- Maintenance of fire alarm systems,
- Provision of skilled and unskilled O & M staff,
- Consultancy design and supervision services,
- Secondment of engineers and quantity surveyors,
- Operation and maintenance of power, water and sewage treatment facilities, air-conditioners and standby generators, and
- Maintenance services for building and civil works of major camps.

The 'Contracting Out' efforts at the organisation have not been limited to moving existing in-house services to the private sector hands only but have also been extended to 'Contracting Out' the O & M activities of newly completed camps and facilities e.g. a recently constructed Prestigious Officers Club and a major Airbase due for completion by the middle of 2005.

6.2 Motivating Factors for considering 'Contracting Out'

6.2.1 Budgetary Constraints

It is the author's experience supported by the documentation review and the exploratory interviews that the organisation's recurrent budget has witnessed progressive reductions over the last decade as a result of a local and global economical decline. It was believed

that the prospect of successive budgetary reduction was going to haunt the organisation unless a solution is found. What has made the situation worse was that many newly constructed facilities are being added to its responsibility without additional funding for the operation and maintenance of those facilities. This had led to over stretching the available human and financial resources allocated for operation and maintenance of existing facilities. Moreover, a review of year 2003 budget allocation for the organisation revealed that a further reduction has been brought to effect. Therefore, the organisation needed to consider alternative ways of services procurement in order to explore ways to rationalise its limited resources. Hence, it was believed that 'Contracting Out' offered one of several possibilities for achieving cost savings that could be used for maintaining additional installations/facilities.

6.2.2 Human Resources Problems

The organisation faces a problem regarding recruitment of qualified technicians and operators, whether locally or from outside the country, for the O & M services of its facilities. This problem becomes more sensitive when Omanisation (process of replacing expatriates with locals) is addressed, as there are few Omanis specialising in these fields. Furthermore, it is difficult to train these Omanis in a short period of time and also difficult to finance in the light of present constraints in budget. Lack of experienced Omanis meant that a large number of expatriates were working in these fields. Hence, 'Contracting Out' was seen as a viable alternative method in services provision to overcome this problem.

Another human resource problem was the inefficiency of some staff currently providing the in-house services. As a Senior Officer puts it "*it is very difficult to monitor the productivity of these staff, as there are no productivity measures (performance indicators) available in the public sector*". This normally leads to low productivity from public employees. In this regard 'Contracting Out' was seen as means of improving productivity because it was perceived that private sector companies exert close watch on productivity of its staff due to the profit making nature of such organisations.

Another concern raised by respondents; in support of 'Contracting Out' within the organisation; was inefficiency due to the organisation's large manpower numbers for some of its in-house operations. One interviewee stated that "*certain tasks would*

normally be carried out by a much lesser manpower level in the private sector, due to efficient use of its manpower". The high manpower levels resulted in production costs being high before 'Contracting Out'.

Furthermore, interviews revealed that there was a problem of bureaucracy in recruiting new staff, as there are certain procedures the candidate has to undergo before finally joining the designated job with the organisation. This meant that there was always a shortage of manpower for key areas of operation and maintenance activities.

6.2.3 Problems with Existing Mode of Operation

One of the reasons for 'Contracting Out' that is also linked to the problem of human resources is the problem with existing mode of operation.

A major problem with the existing mode of operation is the lack of programming of operation and maintenance work. The documentation review supported by interviews revealed the following:

- There are no pre-planned programmes for routine maintenance activities.
- There is a lack of planned preventive maintenance (PPM) programming.
- There is a lack of material procurement planning.
- There is an absence of job related training programs and career development plans for the maintenance staff.

All of these have contributed to a miss-utilisation of the resources of manpower and materials. The result has been a high percentage of lost time, high administrative cost and difficulties in controlling time, cost and quality of work executed.

Despite the fact that certain manpower rationalisation studies were carried out, the organisation's units continued operating based on the existing mode and had not been able to implement such studies. It is interesting to note that 3 years before 'Contracting Out' the MSB&C services (Case Study 3) attempts were made to implement the manpower rationalisation study on the affected camp but without success. Some difficulties were encountered in implementing such a study, as the in-house supervisory staff and maintenance team could not see the potential benefits of such a study which generated a sort of resistance to the intended change.

A further problem with the existing mode of operation was identifying current operating costs. Research revealed that no proper records were kept on actual expenditure on maintenance activities for the different units within the organisation. This became evident while reviewing the feasibility studies for the projects at Case Studies 2 and 3, especially on the cost of materials. This problem has led to difficulties in budgeting and proper planning of operation and maintenance activities within the organisation.

Moreover, a Senior Officer, being asked about the reasons for 'Contracting Out', stated that "*one of the reasons for 'Contracting Out' is to get rid of current weaknesses with existing mode of operation. These are:*

i. *No performance indicators.*

ii. *No proper on job training.*

iii. *Low productivity due to lack of measure of discipline.*

iv. *No clear operating procedures. Due to this problem issues/difficulties are dealt with as they arise (Crisis Management)*

v. *Problem of lack of skilled staff.*

In commenting on the overall effectiveness of the organisation one respondent, who had carried out an audit on the activities of the organisation stated "*there is no proper system and procedures. There is no clear information or the information available is always in-sufficient*".

Therefore, 'Contracting Out' was seen as a solution to many problems within the existing mode of operation.

6.2.4 Political Drives

As stated in Chapter 5 of this dissertation the government of the Sultanate of Oman embarked on a policy of privatisation due to the constraints on its budget as a result of a worldwide economic decline.

According to a Maintenance Director "*one of the main reasons for 'Contracting Out', I believe, is the encouragement by the government to privatise public services due to budget constraints*". It became very clear during the field research that one of the main

reasons for considering 'Contracting Out' has been the requirement to conform to current government policy and directives for encouraging private sector participation in government services provisions and enhancing competition from local firms.

6.2.5 Other Reasons for Considering 'Contracting Out'

Other reasons for considering 'Contracting Out' the organisation's in-house services that have been stated by respondents include:

- To improve the quality of work by means of employing qualified private sector companies possessing the latest technology.
- Because of better risk management in the private sector.
- The need for technology transfer and specialist back up.
- To improve accountability.
- To improve efficiency by making use of the private sector's cost efficiency as a result of the profit motive.
- To reduce the burden on management and save management time, concentrating therefore on core activities.
- Trend of following other developed countries that have benefited from the process.
- Bureaucracy in procurement procedures and other administrative procedures.
- The inability of the organisation to cope with the increasing demands by end-users (clients).
- 'Contracting Out' is a good idea that has been implemented world-wide.

6.3 Main Motivating Factors for 'Contracting Out' In-house Services

Having considered the general motivating reasons for considering 'Contracting Out' the organisation's in-house services respondents were asked to state the main drives behind the move. The responses received for this question revealed that the need to reduce operating costs was the most important reason for 'Contracting Out'. The other three important reasons were to improve efficiency, to provide better service to end-users and to conform to government directives of privatising government services. The following figure 6.1 shows these reasons in order of

importance.

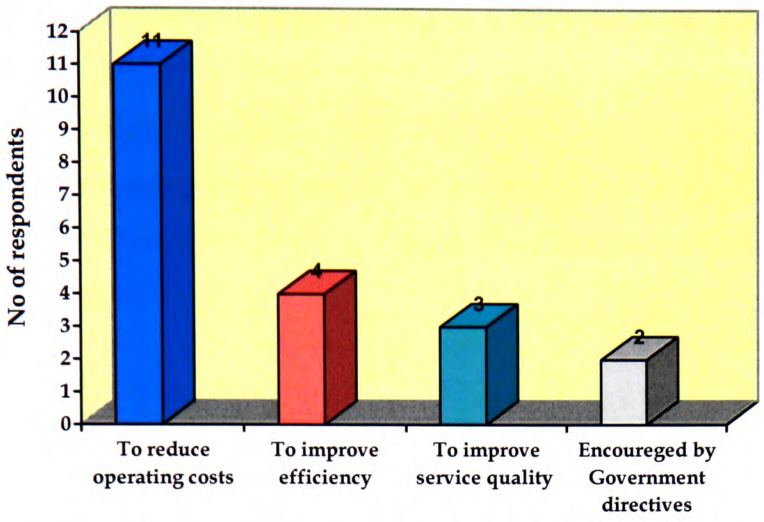

Fig. 6.1 Main Motivating Factors for 'Contracting Out' In-house Services

As can be seen from Figure 6.1 the most important reason for the organisation to consider 'Contracting Out' its in-house services is the need to reduce its operating costs. Appointing private sector companies to carry out some of its services is perceived as a strategy to accomplish this objective.

Other main reasons stated by respondents in order of importance were as follows:

- Technology transfer.
- To reduce burden on management.
- To improve accountability.
- To resolve problems with existing mode of operation.

6.4 Perceived Advantages

6.4.1 General

While the motivating reasons for considering 'Contracting Out' the organisation's in-house services have been addressed in the previous two sections of this chapter, this section seeks to develop the issue further by looking at the perceived advantages that this change would have on the organisation itself and the services provided to its clients.

The main aim of addressing this issue at this stage is to establish what top management and senior staff involved with the process perceive to be the advantages of "Contracting Out' the in-house services to the private sector. Therefore, establishing the organisation's objectives based on these initial perceptions.

The findings of both this section (perceived advantages) and the earlier two sections (motivation for 'Contracting Out') will pave the way for an evaluation of the actual effectiveness of 'Contracting Out' the organisation's in-house services as will be seen in Part B of this study.

6.4.2 Cost Savings

The most frequently cited perceived advantage of 'Contracting Out' the organisation's in-house services throughout the interviews was savings in operating costs. The cost savings are thought to be the result of many factors. The main factor amongst these is that the private sector is considered more efficient than the public sector. Cost savings are perceived to take place in operating costs and in maintenance and spare parts cost.

According to a very Senior Official of the Ministry, 'Contracting Out' to private sector companies is perceived to be cheaper than in-house production due to the following factors:

a) *Better Management structure in the private sector. Such organisations tend to have a flat organisational structure that leads to easier lines of communication and faster decision making compared with public sector.*

b) *Private Companies tend to have high output (production) due to efficient use of resources. Private companies use less manpower in comparison with the public sector for similar activities.*

c) *Private Companies have the incentive to make a profit in order to stay in business; otherwise they might lose to their competitors.*

d) *Competition amongst private companies drives the cost of services down.*

e) *Less Bureaucracy in all aspects in the Private Sector compared with the Public Sector.*

f) *Private Sector Companies work longer hours and have less restricted practices.*

Also, one respondent added that the main perceived advantage of 'Contracting Out' the organisation's in-house services is cost savings which can be attributed to economies of scale (i.e. more units produced for lesser cost) in addition to the above stated reasons.

6.4.3 Improved Efficiency

The second advantage perceived by respondents is the improved efficiency that normally results in increased productivity. Increased productivity is claimed to accrue from more efficient use of staff and equipment by private companies. In commenting why private sector is more efficient than public sector a respondent stated "*private sector has less restrictions i.e. works longer hours, it has flexibility to fire and hire/recruit staff as and when necessary and it has a well organised and swifter purchasing system*".

6.4.4 Better Services Quality

Improvement in quality of service to end-users is also perceived to be one of the advantages of moving the in-house services to the private sector. The number of complaints and breakdowns are expected to be less; hence, quality of service will improve. In addition, response time to complaints is expected to be shorter with private sector companies using commercially accepted standards.

6.4.5 Achievement of Planned Preventive Maintenance Programs

Another perceived advantage is improvement in Planned Preventive Maintenance as a result of computerised maintenance programmes leading to prolonged life of equipment. As stated earlier in this chapter the existing mode of operation does not cater for any maintenance programs; instead maintenance activities are dealt with as the requests for them are raised or when necessary funds become available.

6.4.6 Single Point Responsibility

It is believed that one of the perceived advantages of 'Contracting Out' is the fact that the organisation does not have to manage the day to day detailed arrangements for manpower, materials, equipment and other resources for the services it provides to its clients. In addition, the organisation will have delegated operational issues such as storage, accounting purchasing etc under the terms of the contract, hence, less headache. One respondent commented that "*by 'Contracting Out' the in-house services to the private sector you would hold the contractor responsible for everything*" i.e. the contractor will act as a one-stop shop".

6.4.7 Other Perceived Advantages of 'Contracting Out'

The other perceived advantages of 'Contracting Out' the organisation's in-house services stated by respondents include the following:

- Reduced management responsibility enabling the release of management time to concentrate on core activities of the organisation.
- 'Contracting Out' will help reducing restricted practices e.g. limitations on working hours and job demarcation.
- Better accountability due to clearer procedures and performance measures in the private sector.
- Avoid bureaucracy inherent in the public sector.
- Prolonged life of assets due to efficiency in operation and maintenance activities.
- Reduction in number of employees leading to shrinkage in size of organisation and hence improving communication within the organisation.
- Providing a more detailed cost breakdown, as there is no proper in-house costing system with existing operating mode. This is expected to lead to better budgeting and improved planning.
- Risks associated with operation and maintenance are transferred to third party.
- Resolves problems related to Omanisation policy and availability of skilled staff and hence, responsibility of Omanisation Policy is moved to one party (Ministry Responsible), therefore centralised.
- More job opportunities for Omanis. Nevertheless, this is perceived to accrue in the long term.

- Exploitation of private sector companies specialist expertise and resources, not available in—house, whether locally (i.e. from other similar contracts with other government ministries) or from international affiliates or partners, especially in cases of unforeseen emergencies. Such a service would otherwise have to be bought in if it was in-house team that ran the facilities.
- Enables the organisation to be more transparent and suffer less criticism i.e. at present there is constraint on budget, leading to an inability to provide the service as expected and hence clients blame the organisation. 'Contracting Out' will lead to more accurate costing of services i.e. operating costs and will show clients the real cost of carrying out the operations.

6.5 Potential risks and disadvantages

6.5.1 General

During the first set of interviews carried out for the purpose of this research respondents were requested to state what they perceive to be the potential disadvantages or risks of 'Contracting Out' the organisation's in-house services. The following sections provide an account of the response received for this question.

6.5.2 Social Side Effects

One of the main disadvantages, repeatedly stated by respondents, was the social consequences for the existing Omani staff in particular, and the Omanisation process in general.

These social side effects are:

- ☐ In-house staff currently providing the service will be affected by the move and will view their future with uncertainty.
- ☐ Unemployment is expected to rise amongst Omanis due to private companies' traditional reliance on expatriate workforce.

A Senior Official of the Ministry stressed that *"this is a short term problem and should not act as a deterrent in the path of 'Contracting Out' to private sector companies"*. The private sector in Oman heavily relies on expatriate workforce. He argued that this is the

only way available in order to Omanise, and added that "*you cannot expect to have skilled Omanis out of the blue; they have to be trained by expatriates and progressively take over responsibility*".

However, a senior officer of the organisation had a different view on this issue. He argued that this problem would not be short term. His view is based on the premise that there would be less training programs in the private sector compared with the public sector. In addition, Omanisation policy would suffer due to reduced training for Omanis, especially in the specialised/skilled jobs because the company would be providing the service with a workforce comprising a majority of expatriates; with Omanis employed in the very low skill jobs.

6.5.3 Security Problems as a Result of 'Contracting Out'

Another potential risk of 'Contracting Out' raised by respondents is security, which is an important issue for the Ministry. A Senior Officer of the organisation stated "*an important issue for the organisation, and the Ministry as a whole, is security. With 'Contracting Out' a lot of information is passed over to contractors. This means that you lose confidentiality of information and security of the ministry's camps are put at risk*". This problem is made worse considering that the private sector relies heavily on expatriates whose loyal to the country can be questioned and hence might pass crucial information to foreign countries or subversive organisations.

6.5.4 Resistance to Change

Another potential risk of 'Contracting Out' is resistance to change from in-house staff or end users. Resistance to change might effect smooth implementation of 'Contracting Out' projects. A Senior Official stated "*those not supporting the process would always come up with reasons and arguments against the process and might therefore hinder its proper implementation*".

6.5.5 Problem of Managing Change

Problem of managing the change from in-house provision to 'Contracting Out' is also seen by some respondents to be a potential disadvantage of 'Contracting Out'. One

interviewee puts the reason for this as *"inability to understand the sophistication of the company and hence difficulty of coping with it"*.

In addition, related to managing change, supervising and monitoring contractor's activities once services are contracted out is also seen by many respondents to be a potential problem. A Maintenance Director stated that *"the problem with 'Contracting Out' projects is that they need very close supervision and monitoring"*.

6.5.6 Escalated service price at time of re-tendering

Many respondents argued that it might always be cheaper to contract out certain in-house services initially; however, when it comes to re-tendering or extension of existing contract it is likely that prices will be higher. A Senior Officer commented that *"contractor might have the chance of raising the price if there was insufficient competition in the market from other companies"*.

Also, a respondent added *"contractors can raise their contract prices unreasonably high in the succeeding contract terms and the organisation is in a disadvantage because it cannot bargain for a fair contract price. The contractors can assume that the organisation is not in a position to take over the maintenance activities as its own manpower and plant would have been disposed off by then"*.

6.5.7 Negative effects on the Local Economy

One of the other potential risks of 'Contracting Out' stated by respondents is the negative effects on the local economy. A Maintenance Director stated that *"private sector relies heavily on expatriates. This means that the bulk of income generated by these expatriates will be exported out of the country"*. Therefore the local economy will be affected.

However, some respondents accepted the fact that 'Contracting Out' will be a plus for the economy in the long term as the Omanis are expected to take over skilled jobs and hence the money they earn shall eventually be spent in the country therefore boosting the local economy.

6.5.8 Other Potential Risks/Disadvantages of 'Contracting Out'

The other perceived potential disadvantages/risks of 'Contracting Out' the organisation's in-house services stated by respondents include the following:

- ☐ Risk of selecting poor contractor leading to total failure, bearing in mind you have already lost your in-house capabilities.
- ☐ If contractor starts making losses he will be under commercial pressure to make cut backs e.g. in quality or specification.
- ☐ Problem of change of ownership as a result of outright sale of Contractor's Company.
- ☐ Problem of quality control if no proper supervision is exerted.
- ☐ If something goes wrong in the performance of contractor then there will be a quick response of blaming the organisation's management, as the organisation would still be responsible for providing the services to its clients.
- ☐ Probability of use and discard concept with regard to the defective parts. Contractors will tend to cut corners in order to save money. i.e. instead of taking the initiative of repairing a particular part will tend to recommend replacement at the cost of the employer leading to more replacement of spares than repair.
- ☐ Risks at time of war as contractors' staff (expatriates) might decide to leave the country (as happened during the first Gulf War).
- ☐ Limiting the flexibility of using contractor's expertise and staff for other areas within organisation. For example in cases of emergency contractor's staff cannot be utilised elsewhere in the organisation.
- ☐ End user's privacy might suffer.
- ☐ Loss of key skilled staff and therefore loss of in-house capability. This is a serious issue with the Ministry, especially at times of national emergency.

6.6 Summary

This chapter has established the motivating factors and the reasons for considering 'Contracting Out' the organisation's in-house services, its perceived advantages and potential disadvantages and risks.

The interviews and the examination of available documentation on the organisation's 'Contracting Out' projects, supplemented with the author's personal experience, have revealed that while the budgetary constraints, human resources problems and the problem with the existing (pre-contract) mode of operation were among the motivating factors for considering 'Contracting Out', government policy to encourage government departments to contract out services to the private sector also played a role.

It has been found that the main perceived advantages of 'Contracting Out' the in-house services include: cost savings, improved efficiency, better services quality, achievement of planned preventive maintenance programs, and single point responsibility for maintenance services.

Despite the perceived advantages, 'Contracting Out' is not expected to be trouble free. Social side effects, security problems, resistance to change, problem of managing change and the negative effects on the local economy are among the potential risks/disadvantages of 'Contracting Out'.

It must be stated at this stage that these views are largely subjective with little evidence or support offered for these viewpoints. This may not be surprising in view of the limited data available during the time at which these new initiatives were developing.

CHAPTER 7

RESEARCH HYPOTHESES AND EFFECTIVENESS FRAMEWORK

PART B

AN EVALUATION OF CONTRACTING OUT PROJECTS AT THE ORGANISATION

Chapter 7

RESEARCH HYPOTHESES AND EFFECTIVENESS FRAMEWORK

7.0 Introduction

As emphasised in Chapter 1, the main aim of this research is to evaluate 'Contracting Out' projects at the author's organisation and quantify their effectiveness in terms of achieving the set objectives.

The approach used in this research has been to use the key areas identified in the literature review at Chapters 2 and 3 to evaluate the 'Contracting Out' process at the author's organisation. In order to evaluate the organisation's 'Contracting Out' projects and their effectiveness certain hypotheses were developed, together with an effectiveness evaluation framework. The basis of the hypotheses and the effectiveness framework has been the literature review and the findings from the motivating factors and perceived advantages at Chapter 6.

This chapter has been developed in line with the research process/sequence discussed in Chapter 4 (*Research Methodology*), and reproduced at Figure 7.1; and it concludes Stage 1 of the research.

This chapter therefore aims at discussing the hypotheses developed for the research and the effectiveness evaluation framework that is used to evaluate the effectiveness of "Contracting Out" projects at the organisation.

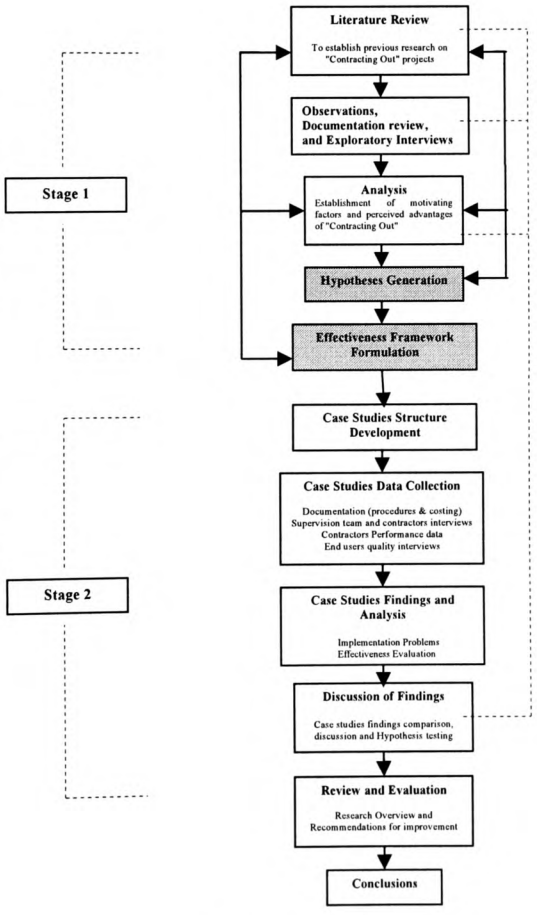

Figure 7.1 Research Process

7.1 Hypotheses

7.1.1 Main Hypothesis

The discussion in Chapter 3, and to some extent in Chapter 2, has shown that a wide range of views held by researchers on the actual benefits that accrue from the "Contracting Out" process.

The principal aim of this research is to test the following hypothesis in respect to the validity of the Oman based government organisation's "Contracting Out" experience which forms the basis for this study. The fundamental (main) hypothesis is:

> *'Contracting Out' the organisation's in-house services to private sector companies improves cost-effectiveness, efficiency and quality in service delivery.*

In order to address the research objectives the main research hypothesis has been broken down into three sub-hypotheses as follows:

7.1.2 Sub-hypothesis 1

> *The rational for 'Contracting Out' the organisation's in-house services rests primarily on the anticipated cost savings.*

Sub-hypothesis 1 addresses the research objective related to the motivating reasons for adopting 'Contracting Out'. This sub-hypothesis has been generated from the discussion in Chapter 3 section 3.4 *(Motivating Reasons for 'Contracting Out').* The literature review demonstrated that although many reasons have been cited for 'Contracting Out' government services, the major motivating factor has been the potential cost savings that can accrue as a result of "Contracting Out". This is based on the findings of Chandler and Feuille (1991), Hodge (2000), Miranda and Andersen (1994), Reeves (1995), and Seidenstat (1999b) discussed in Chapter 3, section 3.4. In addition, the analysis in Chapter 6, on the motivating reasons and perceived advantages of "Contracting Out" the organisation's in-house services, demonstrated that cutting operating costs is the most important reason for considering "Contracting Out".

7.1.3 Sub-hypothesis 2

> *Certain problems are inherent and identifiable in the implementation process of the organisation's contracted out projects at the pre and post contract stages.*

Sub-hypothesis 2 addresses the research objective related to assessing the present 'Contracting Out' projects and identifying their implementation problems. As could be seen from the wording of this sub-hypothesis its contents do not address any of the implementation problems detailed in Chapter 3 section 3.7 of the literature review. This sub-hypothesis is a fact finding one and its examination will depend on the findings of the research. It is anticipated that different projects, although encountering some similar problems, are likely to generate unique ones.

7.1.4 Sub-hypothesis 3

> *'Contracting Out' the organisation's in-house services reduces operating costs and improves efficiency without affecting the quality of the service and the in-house staff currently carrying out the services.*

Sub-hypothesis 3 addresses the research objective related to evaluating the effectiveness of 'Contracting Out' projects at the organisation. This sub-hypothesis has been generated from the literature review at Chapter 3 section 3.5 *(Advantages of 'Contracting Out')* and section 3.6 *(Implementation problems)*. The discussion in section 3.5 has shown that while the potential for achieving cost savings and efficiency has found a somewhat solid base (Savas, 1977; Domberger et al, 1986; Cubbin et al, 1987; Reeves, 1995; Domberger and Jensen, 1997; Prager, 1997; Seidenstat, 1999a; Savas, 2000 and Hodge, 2000) the achievement of improved service quality has not reached a concrete conclusion (Hodge, 2000 and Dean and Kiu, 2002). Also, despite the several likely implementation difficulties outlined in section 3.6 of the literature review, the most important and troubling issue is that related to the effect 'Contracting Out' the in-house service has on the existing in-house staff (Ascher, 1987; Kettl, 1993; Cope, 1995; Savas; 2000 and Hodge, 2000). Chapter 6 has also shown that the main perceived advantages of 'Contracting Out' the in-house services include: cost savings, improved

efficiency, and better services quality. In addition, the most notable perceived disadvantage is the effects on existing staff

7.2 Effectiveness Evaluation Framework

7.2.1 General

As stated earlier in this study one of the main objectives of this research is to evaluate the effectiveness of "Contracting Out" projects at the organisation. In order to achieve this objective an effectiveness framework has been developed for the evaluation. This section explains how the effectiveness elements were derived and how they will be used in the effectiveness evaluation.

7.2.2 Basis for Effectiveness Elements

As could be seen from figure 7.2 the effectiveness evaluation framework is made up of four essential elements. These essential elements are: cost savings, efficiency, quality and minimal side effects on the organisation's existing staff.

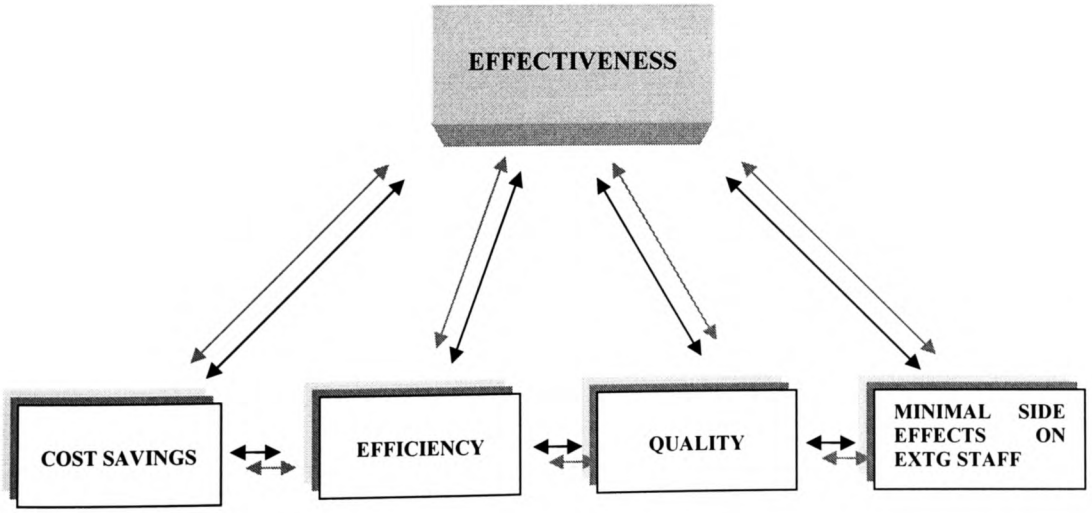

Figure 7.2 The Four Essential Elements for Effectiveness

The effectiveness elements are designed to measure the outcome of "Contracting Out" the organisation's in-house services. They aim at arriving at the extent to which the three main objectives of "Contracting Out" have been achieved. A fourth element has been included mainly to arrive at the extent of the main social side effects of "Contracting Out" on the organisation's existing staff. The three elements of cost savings, efficiency and quality were based on the findings from both the literature review at Chapter 3 and the analysis of findings of Stage 1 of the research in Chapter 6 on the perceived advantages of "Contracting Out". The fourth element, minimal side effects on the organisation's existing staff, has been included in the framework based on the findings from the literature review and the author's experience that such an element was a major concern of all those interviewed during the exploratory interviews of Stage 1 of the research.

7.2.3 Effectiveness Evaluation

The effectiveness measure in this study aims to assess, in a consistent way, whether the case study projects, have achieved their anticipated benefits, to an "acceptable" level.

For "Contracting Out" within the organisation to be considered effective the following criteria should be satisfied:

- The project should sufficiently achieve its anticipated cost savings,
- The operational efficiency has to improve,
- The quality of service has to improve,
- The side effects on the organisation's in-house staff are minimised.

The following sections explain how each of these four elements was measured.

Cost Savings Element

The assessment of the cost savings element was based on the cost comparison of anticipated cost savings pre-"Contracting Out" with actual cost savings post

"Contracting Out". In order to arrive at the actual cost savings, post "Contracting Out" costs were compared with a pre "Contracting Out" baseline as discussed in Chapter 4 (*Research Methodology*). If the anticipated cost savings for the particular project were achieved then the cost effectiveness element would have been achieved. If the anticipated cost savings have not been fully achieved, then if the assessment of the resultant cost savings showed that the cost saving was sizeable in comparison to the cost savings found in the literature review at Chapter 3 i.e. 6-12% (Hodge, 2000), 20-25% (Domberger et al, 1986; Domberger and Jensen, 1997; Seidenstat, 1999a) in section 3.5.2, then a "relative" cost effectiveness would still be considered to have been achieved.

Efficiency Element

The second element of the effectiveness framework is the improvement in efficiency. The assessment of efficiency was based on improved productivity and reduction of cost per unit of production. These criteria have been based on the findings from the literature review in Chapter 3 (section 3.5.4). Comparison of data before and after "Contracting Out" was used to arrive at whether efficiency was better after "Contracting Out" or not.

Quality of Service Element

The third element of the effectiveness framework is the quality of service. The literature review has discussed the difficulty of measuring quality of service after "Contracting Out". Bearing in mind the need to arrive at a realistic judgment of quality of service after "Contracting Out", the author decided to have two criteria for the measurement of change in quality of service. The first criterion, an objective one, was to assess quality on the basis of comparing performance data (statistics) on quality of service before and after "Contracting Out". This was supported by a subjective measure, using interviews with end-users to arrive at their perception of quality of service after "Contracting Out" compared with that of before.

The elements that made up the quality assessment are number of breakdowns, average duration of breakdowns, number of complaints, and response time to emergencies. While these elements made up the assessment for the O & M project at Case Study 2, additional elements were added for Case Study 3 quality assessment due to the different nature of maintenance services included in the latter one. These elements were response to normal service demands, average repair time and average time between breakdowns (i.e. quality of repairs).

Minimal Effects on the Organisation's Existing Staff Element

The fourth element is the achievement of minimal side effects on the organisation's existing Omani staff. The measurements of the side effects were mainly based on assessing actual deployment of staff after "Contracting Out". The effects would be minimal if the total number of staff that have been retired or affected by the transfer is small in comparison to the total manpower that made up the in-house team.

Such minimal criteria were based on the fact that negative effects on existing staff can be significant, as found by the author while reviewing earlier "Contracting Out" projects of the organisation. Moreover, this is a recognised problem associated with the privatisation process in general and "Contracting Out" in particular as services are moved from in-house provisions to a contractor (Ascher 1987; Kettl, 1993; Cope, 1995; Savas, 2000). The author found, from the exploratory interviews under Stage 1 of the research, that the perceived side effects on existing staff was one of the main concerns, and a source of resistance to successful implementation of "Contracting Out" the organisation's in-house services.

Overall Effectiveness

The effectiveness evaluation is completed by a comparison of perceived advantages and disadvantages/risks with actual advantages and disadvantages to arrive at the overall effectiveness of "Contracting Out" the particular project. Tables 7.1 and 7.2 show the main perceived advantages and disadvantages used for the comparison. These are based on the findings from Stage 1 of the research on the perceived advantages and disadvantages discussed in Chapter 6.

Table 7.1 Summary of Perceived Advantages

	PERCEIVED ADVANTAGES
a.	Cost Savings in operating costs.
b.	Increased productivity and efficiency
c.	Improvement in PPM
d.	Better quality of service
e.	Reduce restricted practices
f.	One stop shop/single point responsibility
g.	Reduced management responsibilities
h.	Benefit from specialist expertise and resources available in the private sector.
i.	Better accountability (better and more transparent responsibility for the service)
j.	Less bureaucracy
k.	Prolonged life of assets due to efficiency in O & M activities
l.	Shrinkage of organisation size
m.	Transparency in organisation responsibility
n.	More detailed cost breakdown
o.	Better budgeting and improved planning
p.	Problems of maintenance is transferred to a third party
q.	Achieving Omanisation policy objectives.
r.	More job opportunities for Omanis

Table 7.2 Summary of Perceived Disadvantages/Risks

	PERCEIVED RISK/DISADVANTAGE
a.	Social side effects
b.	Escalated service price at time of re-tendering
c.	Resistance to change
d.	Security problems
e.	Probability of use and discard concept with regard to the defective parts. Instead of repairing a particular part the contractor will tend to recommend replacement.
f.	Risk of selecting poor contractor leading to total failure.
g.	Risks at time of war as contractors' staff (expatriates) might decide to leave the country (as happened during the first Gulf War).
h.	Problem of quality control if no proper supervision is exerted
i.	End user's privacy might suffer.
j.	Problem of supervision
k.	Low Omanisation percentage and less training for Omanis

7.3 Summary

The purpose of this chapter has been to address the development of the research hypotheses and the effectiveness evaluation framework that have been used to achieve the research objectives.

The research hypotheses have been generated in this chapter based on the theoretical background developed at Chapter 3 and the findings in Chapter 6 on the motivating reasons and perceived advantages of "Contracting Out" the organisation's services. The hypotheses are the assessment criteria that provide the link between the theoretical background and data collection and analysis.

The findings from the literature review and Chapter 6 have also been used to develop a framework to evaluate the "Contracting Out" projects at the organisation. This framework will be applied to all individual projects to arrive at a consistent evaluation of effectiveness.

This chapter concludes Part A of this study, which has been devoted to developing a systematic review of contextual and managerial issues related to the topic of study, research methodology, and the motivating reasons and perceived advantages for the organisation to consider "Contracting Out". Part B will provide an evaluation of "Contracting Out" projects at the organisation.

CHAPTER 8

CASE STUDIES PREAMBLE AND AUTHOR'S INVOLVEMENT

Chapter 8

CASE STUDIES PREAMBLE AND AUTHOR'S INVOLVEMENT

8.0 Introduction

This chapter aims at providing a brief background on the three case studies, reasons for selection and the author's involvement in each project.

Due to the confidentiality of the information involved in the study, names and locations together with other sensitive information of the projects shall not be disclosed.

The background provided on the case studies here is only a brief one as the detailed information is provided in Chapters 9 to 11.

8.1 Case Study 1: 'Contracting Out' the Maintenance of Graded roads, Airstrips and Helipads (MRAH)

8.1.1 General

In 1993 a decision was made by senior authorities to transfer the maintenance of graded roads, airstrips and helipads to the private sector and to sell the majority of plant and machinery the organisation owned at that time. However, instead of floating the project in a competitive tender, negotiations took place with one local company to whom the contract was initially let for two and a half years starting from December 1993 and subsequently extended up to December 1996.

8.1.2 Brief Background

The scope of works for this project comprised the maintenance of existing unpaved roads, airstrips and helipads all over the country. The original scope for the maintenance work included routine blading, spot patching, removal of sand dunes, repairs of rain damaged portions and re-sheeting of granular sub-base material.

The contractor is responsible for the provision of staff, materials and necessary equipment/plant to carry out the maintenance work. The maintenance work had to be carried out in accordance to the specification and procedures laid down by the organisation in the contract documents.

8.1.3 Author's Involvement

The author was not involved in the initial contract and the first contract extension, as the contract was not dealt with by the contracts department of the organisation. In addition, when the contract was subjected to a selective tender process through the organisation's contracts department the author was not directly involved in the pre-contract stage of the contract. However, he was involved in the financial and contractual management of the contract during the post contract stage. This included, but was not limited to, the issuing of payment certificates to the contractor, assessing and issuing variation orders and advising on interpretation of contract clauses.

In addition, the author was also involved in the re-tendering of the contract after the expiry of the first selective tender in 1998. This involvement included the redrafting of tender documents, preparation for open tender action, tender evaluation and preparation of a detailed tender report and eventually preparing and arranging for the signature of contract documents by the parties.

The author was also involved in resolving disputes between the company, to which the first contract was let, and the Ministry. This involved contractual assessment of claims submitted by the contractor disputing the contractual penalties imposed on them by the organisation in accordance with the terms of the contract.

8.1.4 Reasons for Selection

One of the main reasons for selecting this project was the fact that the project was the first 'Contracting Out' project implemented in the organisation.

Despite the fact that the author was not involved in the initial initiative for the project at the pre-'Contracting Out' stage, his involvement in the post contract financial and contractual management of the re-tendered contract, together with the thorough documentation review of the initial initiative post contract stage for the dispute resolution meant that sufficient findings could be drawn on the major problems the project implementation phase contained. This was augmented by the documentation review undertaken specifically for the research.

Case study 1, being the first major 'Contracting Out' project, was selected as it provides the background on how the earlier projects were implemented, implementation problem

areas and how the major lessons learnt from this project were utilised to structure the subsequent 'Contracting Out' projects in the organisation.

8.2 Case Study 2: 'Contracting Out' Operation and Maintenance Services of Power Station, RO Plant(s), STPs, Air-conditioners and Standby Generators (O & M)

8.2.1 General

The organisation had been carrying out the operation and maintenance of its power, water, sewage treatment and air-conditioning facilities in order to provide the necessary support services to its clients for quite some time. Towards the end of 1997, encouraged by a national policy of 'Contracting Out' government services, the organisation embarked on studying the possibility of 'Contracting Out' its O & M services to the private sector. The study involved two major camps, one in the north and the other one in the south of Oman. The feasibility studies highlighted that 'Contracting Out' the O & M services at the camp in the south was not feasible. Hence, the contract was awarded for the camp in the north in the last quarter of 1999 initially for a four year duration, starting January 2000, and was subsequently extended for another 2 years up to December 2005.

8.2.2 Brief Background

The scope of works for this case study comprised the operation and maintenance of power, water, sewage treatment and air-conditioning facilities on a base belonging to one of the organisation's clients. The maintenance services include routine, preventive, corrective and breakdown maintenance including repairs of the facilities and equipment.

The contractor provides the management, staff and expertise to perform the O & M services. All spare parts, chemicals, lubricants, consumables etc are provided by the organisation.

The contractor carries out the O & M services in accordance to performance criteria provided by the author's organisation.

8.2.3 Author's Involvement

The idea of 'Contracting Out' O & M services was initiated between the organisation's Head Quarter and the Planning Office, who were responsible for preparing the scope of works for the contract, in liaison with the concerned operation and maintenance departments.

The author was involved in the project from the outset and this involvement continued through all stages of the project from inception to implementation monitoring. The following paragraphs highlight this involvement at both pre and post contract stages:

Pre-contract stage:

The author's involvement at this stage comprised the following activities:

i) Collecting information from other government departments on similar contracts in order to gain an insight into the procedures and systems adopted by them.

ii) Participation in discussions with consultancy offices and major contractors experienced in similar 'Contracting Out' arrangements.

iii) The author was appointed assistant chairman of a technical committee formed specifically for the pre-qualification of contractors. The involvement at this stage was:

- Preparation of invitation letters for pre-qualification to potential contractors.
- Assessment of pre-qualification documents submitted by contractors and the preparation of detailed report on technical and financial capabilities and experience of 17 pre-qualifying contractors. This report was used by the technical committee to formulate the list of suitably qualified contractors for participation in project tender.
- Checking upon performance record and experience of the contractors with other government departments.

iv) Preparation of all tender documents (apart from scope of works) for tender action. This involved drafting the form of agreement and conditions of contract for the contract. This was a new development for the organisation and there were no existing standard conditions of contract for such activities available within the organisation.

v) Assessing and incorporating the different insurance covers and bonds requirements into the contract conditions.

vi) Advertisement and issue of tender addendums to participating tenderers.

vii) Evaluation of contractors' submitted bids.

viii) Participation in preparation of feasibility study report in liaison with the organisation's Planning Office and the Ministry's Internal Audit Department.

ix) Preparation for and participation in the negotiation meetings with preferred contractors.

x) Preparation of tender report to tender committee.

xi) Preparation of contract documents and arranging for the same to be signed by all parties.

xii) Issuing letters of Intent and Award to the successful bidder.

Post Contract stage

The author's involvement at this stage comprised of the following major activities:

i) Attending an inauguration meeting attended by the organisation's technical supervision team and the contractor in order to explain contractual and management procedures of the contract.

ii) Attending mobilisation and joint inspection meetings with both parties.

iii) Scrutinizing performance bond and insurances specified in the terms of the contract.

iv) Overseeing the financial and contractual management of the contract including the issuing of payment certificates and variation orders.

v) Providing contractual advice and answering queries from the technical supervision team as far as the terms of contract are concerned.

vi) Preparation for, and participation in, the contract extension negotiation process.

vii) Preparation and issuance of necessary documentation for contract extension.

8.2.4 Reasons for Selection

This project was the first major 'Contracting Out' project in the operation and maintenance field after the maintenance of roads, airstrips and helipads project at Case Study 1. Unlike the earlier project, extensive studies were carried out for this project prior to 'Contracting Out'.

As seen from the previous section the author was extensively involved from an early stage in the formulation of the organisation's objectives, preparation of pre-qualification requirements and tender and contract documentation. Subsequent to the awarding of the contract the author remained in the role of overseeing the financial and contractual management of the initiative. For these reasons the author had a first hand experience in the formulation and execution of this project and had access to the data required to assess the factors influencing the successful development and execution of such projects. From this case study a quantifiable measure of success could be established based on the organisation's initial perceived benefits of adopting the 'Contracting Out' philosophy.

'Contracting Out' the operation and maintenance services was a new venture in the organisation and the author was the first officer within the organisation to be involved in drafting and establishing tender and contract documents for the project from scratch. His achievement in this field is now being used in applying 'Contracting Out' to other services within the organisation. Hence, the project also provided the author with the opportunity to carry out an audit on own work so that corrective measures could be undertaken in the subsequent projects documentation leading to improvement of present system.

8.3 Case Study 3: "Contracting Out' Maintenance Services For Building and Civil Works (MSB&C)

8.3.1 General

Following the experience gained on the O & M project of Case Study 2 and based on the results accumulated from the first year of the O & M contract, the organisation embarked on a study into the possibility of 'Contracting Out' other areas of its activities. A decision was made by senior authorities to study the possibility of 'Contracting Out' the maintenance of building services and civil infrastructure works on an older camp on which the organisation provides operation and maintenance services. The feasibility study showed that 'Contracting Out' this area was also viable hence a decision was made for contracting it out in May 2002. The contract started in July 2002 and is due to end in June 2006.

8.3.2 Brief Background

The scope of works comprised the maintenance of building services and civil works on the Ministry's main camp. The maintenance services include routine, preventive, corrective and breakdown maintenance including repairs and inspection of the building structures, facilities, equipment and infrastructures (building fabric, building system, building components, road network system and paved and unpaved areas).

The contractor provides the management, staff and expertise including the supply of civil, electrical and public health materials necessary for maintenance services. The organisation provides spare parts for air-conditioning systems and other mechanical equipment.

8.3.3 Author's Involvement

Based on the author's successful involvement on the O & M project this was the second major project the author was involved in through out all contract stages. The following paragraphs highlight this involvement at both pre and post contract stages:

Pre-contract stage:

The author's involvement at this stage comprised the following activities:

i) Preparation of tender documents (apart from scope of works) for tender action. This was based on the already established O & M project documentation prepared by the author, however, necessary amendments to the original documents were made to reflect the varying nature of building services and civil works incorporated in the scope of work of this project.
ii) Advertisement and issue of tender addendums to participating tenderers.
iii) Evaluation of contractors' submitted bids.
iv) Participation in preparation of feasibility study report in liaison with the Ministry's Internal Audit and Planning Office.
v) Full review of initial feasibility study report and the preparation of a revised feasibility study report.
vi) Participation in a scope of work review committee.

vii) Preparation for and participation in the negotiation meetings with preferred contractors.

viii) Preparation of tender report to tender committee.

ix) Presenting the tender evaluation findings and award recommendation to the senior members of the Ministry's Tender Committee.

x) Preparation of contract documents and arranging for the same to be signed by all parties.

xi) Issuing letters of Intent and Award to the successful bidder.

Post Contract stage

The author's involvement at this stage comprised of the following major activities:

i) Chairing an inauguration meeting attended by the organisation's technical supervision team and the contractor in order to explain contractual and management procedures of the contract.

ii) Scrutinizing performance bond and insurance covers specified in the terms of the contract.

iii) Overseeing the financial and contractual management of the contract including the issuing of payment certificates and variation orders.

iv) Answering queries from technical supervision team as far as the terms of contract are concerned.

v) Providing advice on contractual disputes on the scope of work provisions between the contractor and the organisation's supervision team members.

8.3.4 Reasons for Selection

This project was the second major 'Contracting Out' project after the O & M project the author was involved with in a different field of the organisation's services that it provides to its clients (end users).

In addition to the intensive involvement in normal pre and post contract stages of this project, the author was tasked to carry out a full review of the feasibility study, which has made available to him full details of all financial, administrative, personnel and all other related matters. This has meant that the author had first hand experience in the

formulation and execution of this project also. As the project was implemented on the same camp where the author is based, extensive access to the data required was available. Therefore, the author was able to further assess the factors influencing the successful development and execution of such projects and to use data, from previous O & M project to implement modifications to the "Contracting Out" approach to secure an improved implementation process.

This project has provided different lessons due to the nature of the services incorporated in its scope, the age of the camp on which the services had to be carried out, and the large number of in-house staff affected by the move. The lessons learnt from this case study and the earlier two case studies were used to improve the 'Contracting Out' documentation and procedures at the different stages of its implementation in the organisation.

The following three chapters provide an in-depth insight on the three case studies detailing the stages each project went through and addressing the main objectives set for the research.

CHAPTER 9

CASE STUDY 1: CONTRACTING OUT THE MAINTENANCE OF GRADED ROADS, AIRSTRIPS AND HELIPADS

Chapter 9

CASE STUDY 1: 'CONTRACTING OUT' THE MAINTENANCE OF GRADED ROADS, AIRSTRIPS AND HELIPADS

9.0 Introduction

This chapter addresses Case Study 1; the Maintenance of Graded Roads, Airstrips, and Helicopter Landing Pads (Helipads) referred to in this research as the MRAH project. The project was the first 'Contracting Out' project implemented under the umbrella of privatisation in the organisation.

The structure of this case study follows same structure for Case Studies 2 and 3 discussed in Chapter 4 (*Research Methodology*), but its contents differ to that of Case Studies 2 and 3 in that no detailed effectiveness evaluation was undertaken due to that the data available is more limited for the following reasons:

- The project was the first 'Contracting Out' project implemented in the organisation and no comprehensive and detailed study carried out prior to "Contracting Out",
- The author was not involved from the outset, hence did not have sufficient access to the required data on the initial initiative,
- The sensitive nature of this project limited the availability of classes of data,
- By the time this research was carried out the majority of concerned people have already left the organisation as had the staff of the contractor. Hence, there was limited access to first hand experiences by the interviewing participants.

None the less a valuable insight can be gleaned from this case study, and lessons from it resulted in the establishment of the basis for subsequent procedures for the "Contracting Out" approach adopted in Case Studies 2 and 3. Therefore, the focus in this case study will be on the project's major implementation problems and lessons learnt that have been valuable for the implementation of the other two major, more detailed, projects under Case Studies 2 and 3.

9.1 Background of the Project

9.1.1 Scope of Work

The scope of works of Case Study 1 included the following:

- The maintenance of existing unpaved roads, airstrips and helipads. The original scope for the maintenance work included routine blading maintenance, spot patching, removal of sand dunes, repairs of rain damaged portions and re-sheeting of granular sub-base material.
- Contractor's responsibility for upgrading existing roads if and when required by the Ministry.
- Contractor's responsibility for constructing new graded roads if and when required.
- The routine maintenance works are to be carried out in accordance with planned preventive maintenance prepared by the contractor and subject to Employer's approval.
- The upgrading of roads and construction of new roads are to be carried out in accordance with specifications described in the contract documents.
- The maintenance work shall be carried out in accordance to the specification and procedures laid down by the organisation in the contract documents.

9.1.2 Terms of the Contract

The major terms of the contract can be summarised as follows

- The duration of the original contract was two and one half (2.5) years. The current contract duration is three years.
- The contract was a firm fixed price contract based on a pricing schedule for Roads, Airstrips and Helipads annual maintenance inclusive of all costs. The contract also contained pricing schedules consisting of units per kilometre for upgrading of existing roads and the construction of new roads.
- The contractor is required to administer, and maintain the facilities in accordance with the organisation's accepted practices.

- The maintenance contractor guarantees to carry out the maintenance services in accordance with the technical specifications and procedures identified in the contract documents.
- The maintenance contractor is fully responsible for providing all necessary staffing requirements, materials, plant, equipment and all supporting services for the contract execution.

9.1.3 Facilities Included

The facilities included in the original contract were as follows:

- 1654 km of existing Graded (unpaved) Roads scattered in places around the country.
- 29 Airstrips.
- 18 Helipads.

These are scattered in locations throughout the country but mainly divided into two sectors, north and south, where the southern sector houses the major share of the facilities included in the contract.

The number of the above facilities has gone through various amendments since the date of the original contract.

9.2 Project Development

9.2.1 General

The organisation has been carrying out the maintenance of its graded roads, Helipads and airstrips since it was established in the late 1950s. This meant that all personnel, plant, equipment and materials necessary for the maintenance activities were resourced in-house.

In 1993 a decision was made to contract out the maintenance of graded roads, airstrips and helipads scattered in different locations through out the country. All these facilities were outside the organisation's camps as the responsibility for maintaining facilities inside its camps was retained by the organisation.

The reason for 'Contracting Out' the MRAH project was claimed to be commitment with an overall governmental policy of 'Contracting Out' services if it was cheaper and more efficient to do so.

It was also found during the exploratory interviews that according to a retired senior manager who was responsible for overseeing the project, maintaining the plant and machinery was very high due to the high expenditure on fuel, spares and manpower. Hence, the overall efficiency of service was low as the cost of maintenance per kilometer was very expensive in comparison to commercial rates. One respondent also stated that one of the reasons for considering "Contracting Out" was the high cost of setting up maintenance teams and hence camps at all required locations through out the country.

9.2.2 Documentation and Tendering

The exploratory interviews supported by pre-contract documentation review revealed that the project was not floated in an open tender nor selective tender, i.e. it was not subjected to competition.

The company that was awarded the project, proposed to senior authorities that they had the expertise and the resources to carry out the maintenance work. This was said to be based on their experience of the contract previously awarded to them by another government ministry. They claimed they could do it cheaper and better with less management problems for the organisation. However, due to unavailability of concerned people by the time this research was undertaken, it meant that this point could not be fully substantiated.

This proposal seems to have been in line with the Ministry's move towards privatisation and hence received the blessing from the senior authorities, and directives were issued to negotiate a single source best deal with the contractor.

The contract documents were drawn up by the Ministry's main legal department in collaboration with the contractor. The contract was based on a schedule of prices for maintenance work, upgrading of existing roads and construction of new roads as discussed earlier. Thus the contract was to cover activities that were earlier carried out by the organisation's in-house team.

9.2.3 Feasibility Study/Current Operating Costs Calculation

There was no feasibility study carried out prior to award of contract but a committee was formed which consisted of representatives from both the organisation and the contractor. The purpose of the committee was to work out the current operating costs of carrying out the maintenance work by the organisation. The committee arrived at a figure for the organisation's total operating costs, and based on this the contractor offered to do the maintenance work for a lesser amount.

The cost savings anticipated by the committee's report were predicted to be of the order of 37%.

9.2.4 Awarding of Contract

The contract was awarded to the particular company after negotiation that took place on contract terms and conditions. The contract, which started on 1st December 1993 was initially for 2.5 years and was subsequently extended up to 31 December 1996.

The contract, subsequent to its extension of first phase of 2.5 years, was subjected to a competitive tender and the same contractor was lowest bidder and was hence selected for another 2 years, up to December 1998. At expiry the tender was floated in an open tender for the part in the North only and was awarded to a new contractor for duration of 3 years. The outgoing contractor was this time the most expensive bidder. The contract expired by the end of April 2004 and has subsequently been extended up to the end of April 2007 for the same contractor.

As discussed above, the contract was projected to save the organisation an anticipated 37% of the, then, current costs. These cost savings were expected to take place in the following elements:

- Surplus staff,
- Plant (renewal & maintenance),
- Materials, and
- Diesel.

It was also anticipated that some money would be ploughed back from the sale of surplus plant and vehicles that were no longer required.

The contract value was based on an annual agreed price, which formed a financial ceiling for 100% performance by the contractor. The contractor's payments were made on the basis of the organisation's supervision team certification of completed work.

9.2.5 Transition

Before the decision was made to contract out the services under Case Study 1 the total staffing level held by the organisation was 306 (137 Omanis and 169 expatriates). Out of this the organisation retained 94 Omanis and 100 expatriates (194) for the following responsibilities:

- Maintenance of Ministry's graded roads, airstrips and helipads inside its camps,
- Maintenance of asphalted roads,
- Shooting range maintenance work and other special works.

The remaining were declared surplus to the requirement. There was an understanding between the organisation and the contractor that the latter would employ these surplus staff.

Out of 132 plant items and 108 vehicles the organisation had before 'Contracting Out', 57 plant items and 77 vehicles were retained and 75 plant items and 31 vehicles were declared surplus.

Due to the difficulty of finding sufficient data for the project, no details could be found on the number of staff and plant items the contractor provided for the original contract. This does not impact on the 'client benefit' perspective that is the focus of this research.

9.3 Major Implementation Problems

9.3.1 General

Having provided a detailed background on the project and the stages it went through in its development, this section seeks to provide an account of the major implementation problems (shortfalls) through out the different stages of its execution.

9.3.2 Contract Documentation

One of the first comments that could be made on the contract documents is the fact that no specific form of contract was used to formulate the contract documents. The contract lacked the contract administration procedures for instructions, payments, variations, claims, delays etc. normally found in standard forms of contract.

A review of the original contract documents revealed that the contract did not include any provisions for mobilisation procedure nor specified a time frame within which the contractor had to mobilise his necessary resources to site and to start the maintenance work.

No penalty clauses were included in the contract for non-fulfilment of performance guarantees or any particular delays e.g. in mobilisation. Although the contract contained a clause entitled 'Damages for Delay' the particular clause failed to clearly spell out conditions under which such damages could be enforced.

The contract did not specify minimum manpower, or plant items requirements the contractor had to provide for the maintenance activities i.e. it was left to the contractor.

No obligations were imposed on the contractor as far as the take over of existing Omani staff nor on the percentages of Omanisation the company had to provide on the contract.

As to the subsequent contract that was based on competitive tender, observations based on author's participation in dispute resolution committee revealed that there was vagueness in penalty clauses for defective maintenance work and for emergency repair work.

The provisions of penalty clauses contained in the subsequent contract documents were not clearly stated. One of the problems in such clauses was that no maximum penalty limit on non-performance of maintenance work was clearly identified. Also, it was not clear that if part of a road was defective, whether the penalty applied to value of full length of road maintenance or only for the affected portion.

The penalty for Emergency Repairs did not relate to any time period for these repair works beyond which a penalty could be imposed. In addition, the daily penalty for emergency delay was found to be harsh on the contractor with no maximum ceiling having been specified.

Vagueness in penalty clauses resulted in different interpretations by the parties and led to inappropriate penalties being imposed on the contractor in some instances.

9.3.3 Procedures

Operating Cost Calculations

No proper costing of current operating costs was prepared prior to award of contract and the cost prepared by the committee proved to be overestimated. A documentation review revealed that the cost saving figures were not accurate as they did not take into account the full cost of the capabilities retained by the organisation after 'Contracting Out'. In addition, the team that was made up of members from both the organisation and the contractor used figures from a previous cost review to arrive at their opinion of the current operating costs of the organisation's in-house maintenance services. All of this meant that the cost saving figures were not accurate. This was confirmed by a post contract review report, in which it was stated that the organisation's operating costs before 'Contracting Out' were much less than the figures derived by the committee.

Research also revealed that the concerned parties from the organisation of the affected department were not involved in working out the figures. A Senior Contract Supervisor stated that they could do the work in-house with a cost 40% lower than that worked out by the team. He was of the opinion that the figures worked out by the said team were overestimated as they were not based purely on maintenance work but on new road construction work, of which there was significant activity at that time.

Moreover, no independent parties were involved in the calculation of such operating cost figure. This has meant that such calculations have not been independently verified.

Tendering

As discussed earlier, the project was not subjected to competitive tendering but was based on a single source offer by the preferred company. The directives for a single source contract meant that no direct comparison of alternative contractors' prices were available to the organisation. This meant that the price submitted by the company was a monopoly one as the contract was not subjected to competition. Hence, no 'value for

money' was objectively established by the organisation in 'Contracting Out' its maintenance services.

The fact that the same contractor submitted a much lesser price when the project was subjected to a competitive selective tender is a strong indication of the weakness in the process for establishing the financial basis for the original single source contract.

9.3.4 Mobilisation Stage

Although formulating the contract agreement between the organisation and the contractor went off without undue difficulty, the take-over of the maintenance task by the contractor does not seem to have been as straightforward. Post contract reports showed that there were long delays, by the contractor, as it took them "a year to fully mobilise and to attend their contracted maintenance tasks". The delay caused roads, helipads and airstrips to deteriorate and has placed the organisation open to criticism by its clients (the end-users). Numerous complaints were lodged by the end-users on the quality of the roads and the organisation had no choice but to press the contractor to carry out its maintenance task and to bring those roads to the required quality. It has been evident that the contractor took a while to effectively mobilise and function to correct the deteriorating situation of roads.

Moreover, despite the fact that there was an understanding between the organisation and the contractor that the latter would take over the surplus Omanis displaced by the contract, research revealed that the company did not take over any of the Omanis. The contractor opted for cheaper foreign labour, which meant that those Omanis were affected by the "Contracting Out" process.

Also, the contractor was allowed to buy some of the plant and machinery at very discounted prices, which meant that the organisation lost the benefit of selling this plant and machinery to other companies at market prices.

The author could not comment on how the handing over phase went through as no handing over documentation could be found.

9.3.6 Operation Stage

Contract Supervision

One of the major problems on both the original and re-tendered competitive contracts was the inability of the organisation's supervision team to efficiently manage and monitor the contract. Despite the fact that the contract documents of the original initiative contained some detailed monitoring procedures it became evident that proper supervision was lacking. On many occasions the supervision team failed to issue deficiency notices to the contractor, for lack of compliance with the agreed maintenance programmes. In cases where such notices were issued and the contractor confirmed completion no comments were provided by the organisation's supervision team on the contractor's monthly maintenance reports but deductions for lack of performance were affected to the contractor's due payment. The Dispute Resolution Committee had no choice but to over rule such deductions with a recommendation for reimbursement to the contractor due to the lack of substantive evidence. The problem with contract supervision was made worse by the lack of contractor's co-operation with the organisation's supervision team during contract execution (as will be seen in later sections).

Such a shortfall in contract management led to lack of proper administrative correspondence. It was revealed that there was no clear correspondence between the organisation's supervision team and the contractor on the execution of maintenance work. The company used to submit maintenance reports stating that certain maintenance work was completed, while the supervision team attested that particular maintenance work had not been done. These issues led to many subsequent disputes.

Research revealed that the organisation's supervision team was not qualified in contract management and hence there were problems with supervising the contractor's activities. This was worsened by the fact that the number of supervisors appointed was low in comparison to the widely scattered locations of roads that had to be maintained.

Contractual Disputes

During the execution of the original contract a large number of penalties were imposed on the company for not executing the full requirements of the maintenance work and for some of the maintenance work not meeting the agreed specifications and standards.

The contractor submitted a counter claim requesting the waiver of such penalties and for the reimbursement of the same, claiming that they had carried out the maintenance work and they believed that it was in line with the agreed specifications and standards laid down in the contract documents. Such dispute with the MRAH contractor lasted over 5 years and was finally resolved amicably.

Two committees were formed by the Ministry to resolve the disputes. The first one was to prepare the final account for the contract and to establish if the contractor had a right for reimbursement of imposed penalties. The committee found that the contractor was not entitled to such reimbursement. However, in order to resolve such a long outstanding dispute the second committee (of which the author was an assistant chairman) recommended, as an alternative, compromise solution as it found that there was a partial fulfilment from the contractor of some of the maintenance work in dispute. The dispute was resolved by higher authorities within the Ministry based on the compromise solution recommended by the second committee.

A similar dispute arose on the re-tendered competitive contract, with the same company, over deduction and penalties imposed on them for the quantity of work executed not being in line with the agreed maintenance programs and for the quality of some maintenance work that was not in line with specifications laid down in the contract documents.

The second committee, referred to above, was also tasked to carry out a thorough examination of the claim submitted by the contractor based on all correspondence that was interchanged between the two parties during the execution of the extended contract.

The dispute was also resolved amicably between the organisation and the contractor by higher authorities based on recommendation submitted by the committee.

Quality of Service after 'Contracting Out'

Research revealed that the quality of service on the MRAH project was not improved after 'Contracting Out'. One of the main reasons, for such a phenomena had been the below standard performance of the contractor. The fact that a review of some pre-contract documentation revealed that the performance of the contractor was questioned by one of the organisation's clients before contract start date was perhaps a valid prediction.

As discussed earlier, the contractor delayed mobilising his resources for the contract start date and there were many complaints from end-users on the quality of roads. Such complaints continued during contract execution. A review of post contract documentation revealed that the maintenance carried out by the contractor was labelled as fair but not to the level of the organisation's standards and specifications.

Research also revealed that the contractor was unable to cope with the maintenance work due to the limited resources it provided on the contract, and the lack of skilled staff, which led to poor productivity. While reviewing post contract files the author found numerous complaints from end-users.

There was generally poor response on the part of the contractor to carrying out emergency repair works, as a result of wash outs. The 'wash outs' are common, due to the fact that majority of roads that fall in Wadis (Dry Valleys) are subject to flush flooding.

The quality of service, however, improved when on second re-tender a different company took over the maintenance work. Discussions with members of the supervision team revealed that the quality of service was better compared with that of the earlier contractor. The number of complaints was reduced and the quality of maintenance work was improved. Also, the company's response to emergency repair works was better.

Lack of Co-operation

It became evident during the documentation review that there was a lack of co-operation between the contractor and the organisation's supervision team during contract execution. This was exacerbated by the fact that company's maintenance reports did not reflect the true conditions of maintenance work on the ground. Such a lack of co-operation was also reported to take place with regards to the company's response to the supervision team's instructions to attend emergency repairs and in providing them with accurate data of the condition of the roads.

According to post contract files this lack of co-operation from the contractor's side created unpleasant working environment for the supervision team and their morale was adversely affected when their site notices and warnings were totally ignored by the contractor.

Effects on Omanisation

Research revealed that the contractor used mainly expatriates on the maintenance activities and lesser number of local staff, which is in contradiction with the Omanisation policy encouraged by the organisation.

Many of the Omanis that were declared surplus by the organisation as a result of 'Contracting Out' the services included under the MRAH project were transferred to remote locations and others were retired on the old pension scheme as the new one (with more favourable employee terms) had not yet come into effect. It followed that those Omanis were affected financially by the move, as the pension pay was very low on the old pension scheme.

Existing Contract Extension

Research revealed that the original single source contract was extended despite the not very encouraging performance by the contractor on the maintenance work, as evidenced by the post contract reports and during discussions with the organisation's supervision team. Such an action meant that the project was not subjected to competition at contract expiry and that the organisation had continued paying for the maintenance services while the quality of the service after 'Contracting Out' had not improved.

When the decision was made to subject the contract to a competitive selective tender, instead of extending the existing contract, the original contractor won the contract for another 2 years, but the price was much less than the previous contract figure.

9.4 Major Lessons Learnt

Being the first attempt by the organisation to employ the 'Contracting Out' approach, the MRAH project provided many valuable lessons that could be incorporated into the subsequent 'Contracting Out' efforts. The following sections highlight the major lessons learnt from 'Contracting Out' the MRAH project.

a) Involvement of all concerned parties at all stages of the project, especially at the pre-contract stage, is a necessary ingredient for successful implementation of 'Contracting Out' projects. Such an involvement is required whether in putting together the scope of work or in calculating operating costs with the aim of arriving at the likely

cost savings from the project. Involving an independent party from within the Ministry to verify the results might prove to be a useful action to take as it provides an independent assessment. The preferred contractor should not play any role at this stage as it is only the organisation's staff that should be aware of how much a particular service is currently costing the organisation. Otherwise the contractor gains an unfair advantage.

b) Using inaccurate data for calculating the operating costs of particular service results in misleading anticipated cost savings figure. Hence, the decision to contract out the particular in-house task would be based on an invalid data and the outcome may not be up to expectations.

c) Approaching a single contractor on the basis of negotiating a price with him has not proved to be an effective route to follow on this project. Contracts not subjected to competition lead to price monopoly and will result in the contractor taking the leading role and hence a lost opportunity for the organisation in gaining a competitive offer. On the other hand, subjecting the candidate 'Contracting Out' services to competition from the market forces proved to be a suitable option to selecting the best price for the service and securing a reasonable cost saving.

d) Maximum concentration should be exerted in preparing contract documents that comprise of an extensive coverage of all required contract terms and contract administration procedures. The aim should be to protect the interest of the organisation. However, the criteria that should be used here is to allocate risk involved in the proposed works to the party best suited to take it. Unclear contract terms inevitably lead to contractual disputes between the parties during contract execution.

e) Selecting an inexperienced and unqualified contractor lacking the appropriate resources for the job is likely to lead to poor quality of service and hence accumulating complaints from the end-users.

f) Efficient and effective contract supervision is an important ingredient for successful implementation of 'Contracting Out' projects. The supervision team should be adequately staffed and contractually and technically qualified to supervise and monitor the activities of the contractor.

g) Lack of thorough assessment and proper planning of the fate of displaced Omani staff affected by 'Contracting Out' the particular services lead to negative effects on the

existing Omani staff. Careful consideration should be applied to protect the interest of the existing staff.

h) Subjecting expired contracts to a competitive re-tender, leads to improvements in cost-effectiveness through active competition.

CHAPTER 10

CASE STUDY 2: CONTRACTING OUT THE OPERATION AND MAINTENANCE SERVICES OF POWER, WATER, SEWAGE TREATMENT AND AIRCONDITIONING FACILITIES (O & M)

Chapter 10

CASE STUDY 2: 'CONTRACTING OUT' THE OPERATION AND MAINTENANCE SERVICES OF POWER, WATER, SEWAGE TREATMENT AND AIR-CONDITIONING FACILITIES (O & M)

10.0 Introduction

This chapter addresses the second case study for this PhD; the Operation and Maintenance Services of Power, Water, Sewage Treatment and Air-conditioning facilities referred to in this research as the O & M project. The project represents the first major operation and maintenance project implemented under the umbrella of privatisation in the organisation for which a comprehensive feasibility study was carried out.

This case study constitutes one of the two major projects for this Ph.D. that has been used as the main case study based on which the third project under Case Study 3 was developed. Fig. 10.1 is the structure and the 'route map' for this case study already discussed in Chapter 4 (*Research Methodology)*. Case Study 3 will follow the same route.

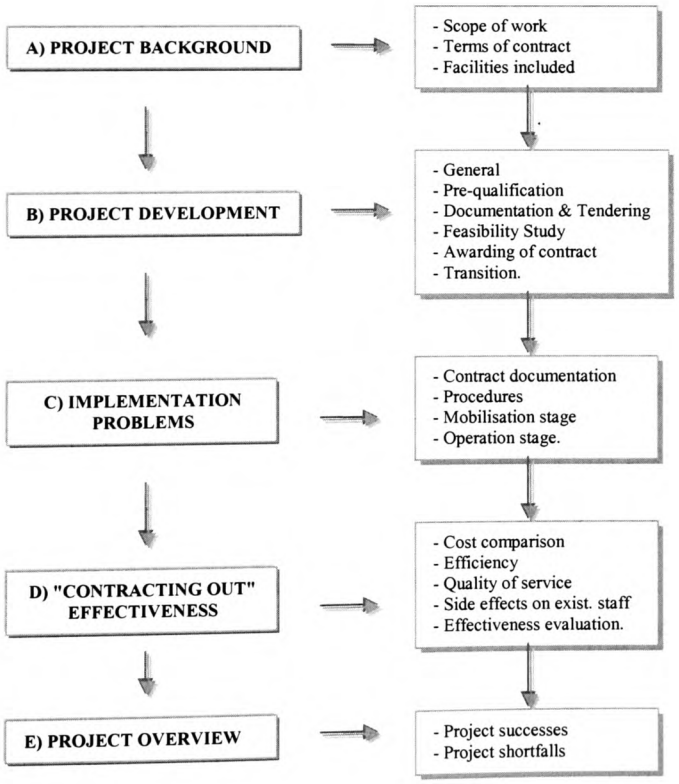

Figure 10.1 Case Study 2 Structure

The data included in this chapter is the findings based on the documentation review; interviews with the organisation's supervision team, the end-users and the O & M contractor; comparison of performance data before and after "Contracting Out"; and observations made by the author.

10.1 Background of the Project

10.1.1 Scope of Work

The scope of works of the O & M project includes the following :

- The Operation and Maintenance services of the facilities included in the contract as mentioned below in section 10.1.3. These services include routine preventive, corrective and breakdown maintenance including repairs of the facilities and equipment.
- The contractor to provide the management, staff and expertise to perform the O & M services.
- The contractor shall carry out the O & M services in accordance to performance criteria set by the organisation in the contract documents.
- All spare parts, chemicals, lubricants, consumables etc are provided by the organisation.

10.1.2 Terms of the Contract

The major terms of the contract can be summarised as follows:

- A contract duration of 4 years with the provision for a one-year extension.
- A firm fixed price contract based on man-month rates.
- The O & M contractor is required to administer, operate and maintain the plant in accordance with internationally accepted practices.
- The O & M contractor guarantees to maintain the power generation of each generating set at not less than 90% of the site rated capacity.

- The O & M contractor guarantees to produce product water and treated water as necessary to satisfy demand, up to a minimum quantity not less than 90% of the distillation/treatment plant's design capacity over an average hours per year.
- The O & M contractor shall maintain 100% staff manning levels under each category of 66 minimum manpower requirement specified in the contract.
- Penalties for non-fulfilment of performance guarantees, unscheduled outages/load shedding and not satisfying manning levels.
- The O & M contractor to take over the organisation's Omani staff (38% of total O & M staff) with terms and benefits set by the organisation. (Note: this was the original intention but as could be seen in section 10.2.5 *(Awarding of the Contract)* the organisation decided to retain all Omani staff and the contractor was asked to provide all manpower required for the O & M services).

10.1.3 Facilities Included

The facilities included in the contract are as follows:

- Power Station comprising of 2 Gas Turbines site rated at 10 MW (approx.) each and 4 units standby diesel generators including the Electrical Distribution system and all associated equipment.
- Water Production facilities comprising 2 Desalination plant units with production capacity of 1680 m3/Day total, and 2 Reverse Osmoses (RO) Plant units with production capacity of 1200 M3/Day each, including all Sea Water Pumps, Pumping stations, Reservoir tanks, Overhead tanks, Evaporators, Boilers and Auxiliary boilers.
- 2 Sewage Treatment Plant (STPs) with installed capacity of 1480 M3/Day, made up of following sections:

  Pumping Station, Aeration Tank, Settling Tank, Balancing Tank, Filtration tank, Chlorine Contact tank, Reservoir, Treated Sewage Effluent (TSE) Irrigation Tank, and Waste sludge Facilities. Including TSE Irrigation plant & storage system, sewage lines & Manholes/Inspection Chambers.

- 9 units of Standby generators (Diesel)

- Buildings and other facilities air-conditioning and refrigeration equipment, including split A/C units, chilled water system, window A/C units, filters and control system components.

10.2 Project Development

10.2.1 General

The organisation has been carrying out the operation and maintenance of its power, water, sewage treatment and air-conditioning facilities on the subject camp for the last two decades. Towards the end of 1997, encouraged by a national policy of 'Contracting Out' government services, the organisation embarked on studying the possibility of 'Contracting Out' its O & M services to the private sector. The study involved two major camps, one in the north and the other one in the south. The feasibility studies highlighted that 'Contracting Out' the O & M services at the camp in the south was not economically viable. Hence, the contract was awarded for the camp in the north only in November 1999 with the contract starting date set for 1st January 2000.

According to the Ministry's Internal Audit Report the main aims of 'Contracting Out' the O & M services at the organisation are:

a) To improve the efficiency of the O & M services provided to the clients.
b) To achieve 'value for money' and hence cost savings through a reduction in operating costs.
c) To adhere to government policies of encouraging private sector participation in economy and to streamline the organisation.

10.2.2 Pre-qualification

Due to the importance of the project and the sensitivity of the O & M services that were to be contracted out, a technical team was formed to pre-qualify potential contractors for participation in the tender. Invitations were addressed to 19 companies. The organisation sought companies with proven experience in operation and maintenance services of power, water, sewage treatment and air-conditioning facilities, good management and technical capabilities. In addition, a positive record of working with other government departments within the country was required.

The pre-qualification submissions were received from specialist contractors in the field and from local companies with well known international affiliates.

The technical committee's evaluation resulted in short listing of 9 companies to participate in the selective tender action for the project.

10.2.3 Documentation and Tendering

The tender documents were assembled by the organisation's in-house team as no consultant was appointed for the project. The tender documents that were based on similar government contracts consisted of instructions to tenderers, form of tender, form of agreement, scope of work and conditions of contract. The contract was based on a schedule of prices comprising man-month cumulative rates on the basis of a minimum manpower requirement, consisting of 66 different skilled and unskilled staffing categories.

Although the original intention was to invite the 9 qualified contractors referred to above to participate in the tender a decision was made by senior authorities to float the project in an open tender. However, the advertisement called for excellent grade specialist contractors in the field of operation and maintenance of Electro-mechanical facilities. The aim of this action was to broaden the number of participating tenderers in order to receive competitive offers.

A total of 19 companies applied for the tender documents but only 11 submitted offers. The initial tender submissions' analysis revealed that there was major confusion over the contractor's scope, as far as responsibility for spare parts; materials and major inspections/overhauling of the facilities were concerned. This in fact necessitated a call for resubmission from the 11 tenderers based on a clarified scope of work as far as above issues are concerned. The appraisal of the resubmissions revealed that there were five companies capable of executing the O & M project. However, as the appraisal progressed it became apparent that only two companies possessed the necessary capabilities and experience to undertake the contract and have fulfilled all technical requirements of the project. Negotiation took place with these two companies only. The major issue that occupied the negotiation process was the transfer of Omani staff, required by the contract, to the successful O & M contractor.

10.2.4 Feasibility Study

The feasibility study for this project was mainly based on the comparison made between the organisation's in-house current costs and the bids received from contractors.

During the tender period, the Ministry's Internal Audit Department was busy calculating the organisation's current operating costs of carrying the O & M services in-house. This was prepared with the aim of establishing whether "Contracting Out" would be a cost effective option when compared with the current use of the organisation's direct labour. The audit report produced target costs, which, when compared with contractor's submissions indicated that the project would be economically viable.

The comparison, referred to above, produced positive results in that an anticipated cost saving of 18% compared with the organisation's existing operating costs could be achieved.

10.2.5 Awarding of the Contract

The organisation entered into a four-year contract, effective January 2000, with a local well-known company in the field of operation and maintenance services of Electro-mechanical facilities. The organisation retains ownership of all plant and equipment and pays the company a monthly fee for providing the management, staff and expertise to operate and maintain the facilities. All spare parts, consumables, lubricants are provided by the organisation.

The contract was projected to save the organisation 18% of its current operating costs over the 4 years contract duration, while improving the efficiency of the plant and equipment and hence improving the quality of services provided to the end-users.

The 38% Omani staff that was supposed to be transferred to the successful company were retained by the organisation and were transferred to other areas/locations within the organisation. The majority of the 62% expatriate staff were also transferred to other locations within the organisation, however, the O & M contractor was allowed to recruit some of these expatriates. Only two joined the company, at the level of operators.

10.2.6 Transition

The letter of award was issued in November 1999. The contractor started mobilising his staff to take over the facilities from the organisation in stages. The first batch that was deputed to site was the key personnel in the categories of engineers, supervisors and technicians.

A joint inspection team was formed consisting of members from both sides to hand over the facilities to the contractor. By the end of December 1999, the contractor was fully mobilised to site and was ready to start the O & M services by the contract start date on 1st January 2000.

During the mobilisation period contractor's staff were tested by the organisation to ensure that they satisfied the criteria of qualifications, experience and competency set in the contract documents. Some of contractor's proposed technicians/operators were rejected by the organisation as they did not satisfy the said criteria and hence the contractor replaced them.

The contract called for the contractor's staff accommodation to be arranged outside the camp. This, however, proved to be impractical and accommodation was arranged inside the camp for operational reasons. The company was asked to affect a price reduction to reflect the cost of accommodation provided to them by the organisation at a charge.

10.3 Implementation Problems

10.3.1 Contract Documentation

General

The Contract Documents were the first of their kind in the organisation. They were prepared by the author of this research in collaboration with the Planning Office, who were responsible for putting the scope of work together. The contract documents are now being used as an example for application to other fields of 'Contracting Out' within the organisation.

A review of the Contract Documents for the purpose of this study revealed that they are generally clear. They were checked by the Ministry's main Contracts and Legal Department and received approval with minor comment on the re-organisation of some clauses in the Conditions of Contract. Immediately after tenderers have collected the

tender documents, the feed back received from them was that the Tender Documents were "*Crystal Clear*".

The following paragraphs provide detailed analysis of the Contract Documents highlighting problem areas that need to be given more attention on future similar projects.

Minimum Manpower Requirement

The contract was based on a minimum manpower requirement of 66 staff in the different skilled and unskilled categories required for the O & M services. If the number of staff provided by the contractor fell below this then penalty clause will come to force. On the other hand, if the contractor had to provide more manpower to satisfy his contractual obligations he would do so without the organisation incurring any additional cost. While this minimum manpower requirement has proved to be sufficient on this project, the basis for such minimum requirement is not clear.

Perhaps, it should have been left open to tenderers to propose their own arrangement of manpower so long they meet the performance requirements specified in the Contract Documents. After all one of the main reasons for privatisation is that, the private sector is more efficient than the public sector in the use of manpower and equipment. Interestingly, during negotiation one contractor offered to do the O & M services on the basis of providing 50 staff but this offer was not accepted by the organisation, as they were not sure if the contractor could do it with such a number bearing in mind that the O & M project was a pilot scheme and that there will be a major set back for the organisation in case of contractor's failure.

Penalties and Incentive Clauses

The Form of Agreement concentrated on the different penalties imposed on the contractor in cases of failure. No considerations were given to incentive clauses for improvements from the side of the Contractor, for example in the method of operation and maintenance or in the efficient utilisation of spare parts, consumables etc. although research revealed that the O & M contractor has managed to make some improvements

to the operations and to effect some savings to the organisation's expenditures of spares, consumables etc by means of efficient utilisation.

Insurance Cover

The conditions of contract clauses obliged the contractor to have insurance covers for an extended period of 6 months after the expiry of the contract. The same was also applicable to the Performance Bond. The 6 months extended period is too long and does not serve any purpose apart from increasing the burden on the contractor and inflating the project cost. Consideration should be given to reduce this period to 3 months. The contractor will not in any way take longer than 3 months to rectify the defects noticed during the taking over/inspection period at the expiry of the contract. After all the Form of Agreement stipulated that payment for the last three months of the contract shall be retained until the contractor has successfully handed over the works to the organisation or the successor contractor and has rectified all defective works. Such a provision should be a sufficient deterrent for default on the part of the contractor.

Vagueness of Scope of Work

The scope of work did not make some issues in relation to contractor's responsibility over spares, materials and major overhauling works very clear. Despite the fact that Tenderers' queries over these issues were clarified during tender period, it still caused confusion and hence tender submissions were not very clear. This made tender appraisal difficult. In order to resolve this problem approval was sought from Tender Committee to ask Tenderers to re-submit new offers based on clarified scope of works. Perhaps time should have been allocated to refine the scope of work before project was floated in tender.

In addition, the project was initially for two camps but was only awarded for one in the end. Once the project was awarded the scope of works, which was originally for 2 camps, was not amended to reflect the camp that was awarded. This created some confusion to the organisation's supervision team members during the contract execution stage. The final scope should have been refined to reflect the revisions made to it during tender, by means of the many addendums issued, and negotiation stage.

A Maintenance Director overseeing the organisation's supervision team being asked about the comprehensiveness of the contract documents commented *"due to the many tender addendums and revisions that were issued during the tender period the contract documents ended up to be very messy"*. He added *"I had to spend double the time I normally spend reading other Contract Documents due to these reasons"*.

The O & M contractor's Contracts Manager also stated that although grey areas in the scope were clarified before tender submission *"some minor issues remained unclear like civil and electrical scope, which has been the subject of different interpretation during contract stage"*.

10.3.2 Procedures

Pre-tender

As this type of project was new to the organisation, the first difficulty encountered was that there were no existing 'Contracting Out' procedures available on which the work could be based. This meant that new procedures had to be developed.

A review of pre-tender documentation on the O & M project supported by the author's observations and interviews with the organisation's supervision team revealed that there was lack of awareness by the majority of concerned people within the organisation on what the 'Contracting Out' process was all about, and what are its motivating reasons for the organisation embarking on such a move. Some of the concerned staff were not directly involved in the initial stages of the process and that there were no guidelines published on the stages a particular 'Contracting Out' project will go through. It was found that concerned staff of the affected unit were not fully involved in the preparation of scope of work related to their particular sections. Some of them were asked to provide information for incorporation in the scope of work without a clear indication on actual objective. A Maintenance Director overseeing the supervision team stated *"we were asked to provide information, but we did not have a clear idea on what exactly was the objective"*. Only senior management within the affected department were involved in co-ordination with the concerned party, who were responsible for putting scope of work together.

Moreover, the fate of staff presently carrying the O & M activities in-house was also not transparent. There was anxiety amongst affected staff concerning what might happen to

them after the O & M services were moved to the private contractor. At one stage, those that were carrying out the study were seen as working against the interest of the staff. All of the supervision team staff interviewed confirmed that the affected existing staff were not notified well in advance about the move and what might happen to them as a result.

In addition, it was also found that no assessment of the existing position, as far as efficiency of service or productivity of staff is concerned, was carried out prior to 'Contracting Out'. It is interesting to note that the Internal Audit Department stated in their pre-feasibility study report that their enquiries indicate that the in-post staff of the affected unit were generally competent and have been effective in keeping plant maintained and working. This was a lost opportunity to establish a base on which to measure relative losses and gains in performance resulting from 'Contracting Out'.

Feasibility Study

As stated earlier in this case study the feasibility study of the project was based on the comparison of current operating costs with the most realistic tender figure.

A review of the feasibility study report revealed that the calculation of current operating costs was not based on accurate information as to the number of in-house staff carrying the O & M services and the number of vehicles that were in use for the O & M services. As far as manpower is concerned some staff belonging to other locations associated with the affected unit were wrongly included in the current operating costs study.

The other problem was that the anticipated cost savings did not take into account the cost of the supervision team subsequent to the contract being awarded. There were 7 staff (engineers) supervising the in-house O & M services that were not included as part of the current operating costs calculation. The feasibility study assumed that 2 of these 7 would become surplus i.e. cost saving and the 5 remaining would be retained for supervising contractor's activities. What has happened was that all of those 7 staff were retained for supervision, this means that the anticipated cost savings calculation were inaccurate.

Moreover, the structure of the feasibility study report used as a basis on which a high level decision was made for the project to proceed, did not include important elements

like details of relocation of affected manpower and security implications of allowing private contractor to carry out operation and maintenance services on the organisation's camps.

Tendering

The tendering procedures for the O & M project were generally satisfactory, considering that the project was the first of its kind. The tendering procedures followed were similar to those normally used by the organisation for all other types of projects. The only difference was that pre-qualification of potential tenderers was specifically carried out for the project as the original intention was to action the project through a selective tendering procedure as discussed earlier in section 10.2.3 (*Documentation and Tendering*).

The tender called for a main offer which was to include two camps, one in the north and the other one in the south of the country. However, the project was awarded on the basis of the camp in the north only. Due to the remoteness of each camp from the other (1,100 km distance) and the complication that might have resulted to both participating contractors and the organisation, it would have been easier if each project was floated in separate tenders. Such a separation would have made life easier for both tenderers and the organisation. Also, the organisation can better compare the performance of contractors if the two contracts were separately awarded. Moreover, the consequences of a contractor defaulting if awarded one camp would be less severe than the case where two camps were involved.

One of the main problems found at this stage was that the tender did not include any information on tender evaluation criteria that will be used to assess submitted tenders. It became evident during field research that such criteria is important. A Maintenance Director argued that *"such criteria would definitely lead to a more competitive offers"*. The same was also confirmed by the O & M contractor.

The tender results were not announced after tender opening, which meant that contractors' relative position was not known to them, therefore they were handicapped as whether to wait for this project or to concentrate on other tenders. In addition, tender bonds were kept renewed for quite a long period of time resulting in additional burden on participating tenderers. The O & M contractor confirmed that this issue did cause

them bad effects as their Contracts Manager stated "*it did inflict some effects on us as we were left in the dark of what is going on and whether we stood a chance and if not we would be concentrating on other tenders*".

Many tender queries were raised by participating tenderers during tender stage and after site visits. The method that was used to answer such queries was to issue several written addendums to all participating tenderers. However, some of the issues remained ambiguous which led to unclear tender submissions as stated earlier in section 10.3.1 (*Contract Documentation*). The amount of queries and associated correspondence could have been reduced if a face to face meeting had been held with all tenderers after the site visit has taken place.

Contract Formulation/Awarding Stage

A major problem during this stage was the delay in making the decision on awarding the contract. An examination of data collected for the case study revealed that it took almost one and a half years from date of advertising the tender before announcing the decision. A research into what exactly happened during that period revealed that considerable time was spent on assessing whether the project was viable or not and in the negotiation process with preferred bidders. Table 10.1 shows the different pre contract activities the project went through up to award with the corresponding dates stated against each activity.

Table 10.1 Case Study 2 Pre- contract Stage Activities

Date	Activity
15 Feb. 1998	Approval from high authority to study the possibility of 'Contracting Out'.
19 Apr. 1998	Pre-qualification of potential contractors.
25 May 1998	Preparation of tender documents.
20 Jul. 1998	Advertisement of tender.
28 Sept. 1998	Original tender submissions.
15 Oct. 1998	Initial technical evaluation.
02 Nov. 1998	Revised tender submissions.
15 Nov. 1998	Current operating costs calculation report.
25 Nov. 1998	Technical evaluation finalised.
30 Jan. 1999	Feasibility study report preparation.
14 Feb. 1999	High authority approval to proceed with project.
Mar.-June 1999	Negotiation with preferred bidders.
01Aug. 1999	Tender report preparation and submission to tender committee.
08 Sept. 1999	Issuing of Letter of intent.
20 Nov. 1999	Issuing of Letter of Award.

From the date of tender submissions to the contract award, bidders were required to have valid tender bonds and their offers were re-validated every three months. This meant that a lot of contractors' money was held by the bank and financing charges were levied. This problem was made worse due to the fact that the organisation had a policy then of not announcing a shortlist of tenderers after tender opening as discussed earlier.

In addition to the long period of time taken to assess the viability of the project, the long negotiation process is considered to be one of the reasons for delay in awarding. Such delay was the result of lack of pre-set, well defined criteria for the bid evaluation process in the tender documents.

Another difficulty encountered during the contract formulation stage, which is also considered to be one of the reasons for the delay in awarding the contract, was the issue of transferring the Omani (local) staff who were carrying out the O & M services in-house to the successful company. The tender documents obliged the successful contractor to take over the 38% Omani staff, of the total in-house staff before 'Contracting Out', with terms and conditions set by the organisation. A problem arose when it came to assessing the transfer process of these staff before the contract could be signed. The concerned department was unable to action the transfer because the organisation's pension scheme had only started few years prior to the project date and that there was no mechanism available to transfer such benefits to the concerned authority within the private sector.

Negotiation had therefore to be made with the successful bidder to retain the Omani staff within the organisation, which meant that the contractor had to come up with their own staffing arrangement. Due to the fact that the private sector in Oman relies heavily on lower cost Asian Labour, it was believed that the negotiation would result in more cost savings to the organisation than those anticipated by the project's feasibility study. Unfortunately, the results of the negotiation were negative, the contractor did not give any discounts and the revised feasibility study showed that the project was not viable if all Omani staff were to be retained on the same facilities. When this result was presented to the most senior authority within the organisation (the C.E.O.), the project was close to cancellation and all efforts would have been wasted. In order to overcome this problem a study had to be undertaken into the possibility of transferring those Omanis to other locations within the organisation to fill vacant posts and to retrain some of them to take on jobs in other fields. The idea received the approval of the senior

authority and the revised feasibility study showed more cost savings to the organisation than the original one, which was based on transferring the Omanis to the successful Contractor.

10.3.3 Mobilisation Stage

General

Despite the fact that there was no problem with procedures for joint inspection and handing over the facilities to the company as confirmed by interviews with both the supervision team members and the O & M contractor, there were quite few implementation difficulties encountered during this stage. The following sections provide an account of the same.

Mobilisation Period

One of the issues that is worthwhile mentioning at this stage is the 30 days mobilisation period stipulated in the contract documents. Such period proved to be inadequate considering the large number of staff the contractor had to bring to site and the many facilities he had to take over from the organisation. Research revealed that it was fortuitous that the O & M contractor had the necessary resources for such a contract as confirmed by them arguing "*we had no problem on this contract as we could do it faster due to our available resources, however, we believe mobilisation period should be longer*". In addition, the organisation allowed them to start on site well before the stipulated time (letter of intent was issued 3 months before contract start date). Had this not been the case the 30 days period would have been short bearing in mind the time taken to get the labour sanctions for the expatriate labour force.

Selection and Assessment of Contractor's Staff

There was a difficulty to do with the selection and assessment of the contractor's staff. Although the contract documents provided some indication on the qualifications, competencies etc of contractor's key personnel like contract manager and supervisors there were no written guidelines or procedures for selection and how the interviews ought to have been carried out. It became apparent during the field research that

majority of the organisation's supervision team staff had a problem in this regard, what made it worse also was that the majority of these had no previous experience or knowledge on assessing competencies. A Maintenance Director addressed this problem by stating "*there were no written outlines or procedures for interviews hence some of our staff had difficulty assessing contractor's staff*".

A noticeable problem during this stage is that the majority of personnel brought in by the company were expatriates that were new to the country and the facilities. According to the organisation's supervision team some of contractor's staff did not understand how some of the facilities operated. During the interview the O & M contractor's Contracts Manager was asked to state the reason. He responded by stating "*yes the majority of staff brought to site were new but we believe they were competent as we have very stringent selection process and those who were not found competent were rejected by the organisation anyway. However, we accept that there was a problem of language*".

Security Gate Passes Delay

There was a problem initially of delay with issuing necessary security gate passes for contractor's staff by the organisation. Field research revealed that the concerned security department was not involved from the outset. A Senior Officer stated "*there was some delay in getting gate passes issued on time. We did not involve the concerned parties from the beginning, therefore they were not aware of the requirements well before and therefore they were not aware of the requirements well in advance*". When the requirements for the large number of gate passes were raised the concerned security department was not used to processing such a large number of gate passes before, coupled with the problem of difference between actual trades and those in labour camps for expatriates which meant that there was a delay in receiving necessary security passes. The O & M contractor's Contracts Manager confirmed this by saying "*yes there was a delay due to many reasons amongst which the difference in trade in labour ID card and actual trade. This problem was resolved by changing the trades of concerned staff in the ID card to fit actual through the labour office*".

Such delay seems to have been and still is of a concern to the contractor who has stated "*security is one area where we have and are still facing difficulty with. There are areas where we still cannot gain access to during certain times*".

Definition of Standard of Facilities

There was no clear definition of the standard of facilities to be handed over to the contractor. One of the respondents stated that it was difficult to classify the conditions of facilities and the nature of snags list (i.e. definition of acceptable condition was not easily established and cut off point between major and minor snags was not defined). From the O & M contractor's point of view *"joint inspection procedures were ok but there was no dedicated party for the joint inspection from the organisation side. There was a problem initially with definition of condition of facilities but this was resolved immediately afterwards"* (Contracts Manager).

There was also a problem with certain contractual issues during the mobilisation stage. The responsibility for store keeping and holding of spares was not clear, and for preparation of store demands (ordering of stock) was also not clear. The organisation's supervision team was not clear on delegated responsibilities. There were no written guidelines on the issue and the contract documents did not make this issue very clear. As a consequence negotiation had to be entered into to tackle few issues that came to surface during the mobilisation stage. There were also other minor areas of scope where contract documents did not make clear, however these were resolved on the basis of mutual agreement between the organisation and the contractor.

10.3.4 Operation Stage

General

Research into this stage revealed that there were few implementation problems encountered during the operation stage however, one of the main problems during the initial stages of contract operation was related to contract supervision. The following sections elaborate on this and other problems during this stage.

Contract Supervision

The supervision team was not included in the feasibility study that preceded 'Contracting Out' which meant that no re-organisation/restructuring took place to reflect the new arrangement. The same organisation's supervision team that was responsible for the in-house activities, with the same designations, continued with the supervision after the contract was awarded. It was found during research that the number of such supervision team was high bearing in mind that the contractor brought in his own contract manager and supervisors as per the contract requirements. In addition, none of the supervision team members had the knowledge or experience of managing contractor's activities which meant that their minds were still blocked to the old system of running the activities. Due to their lack of awareness on contractual management issues they had difficulty reading, understanding and interpreting the contract documents. What made the situation worse is the fact that there were no job descriptions provided for the supervision team. The result was an overlapping between their duties and those of the contractor's supervisors especially at the initial stages of the contract. A Maintenance Director overseeing the supervision team stated *"there was an overlapping especially at the outset due to that our staff were new to managing the work of contractors. However, such overlapping did not cause a problem".*

Moreover, no monitoring procedures to help these supervisors were put in place apart from the different reports the contract documents concentrated on. While some contract supervisors believed that the monitoring procedures were sufficient, a more involved contract supervisor, being asked about the sufficiency of monitoring procedures laid down in the contract documents, confirmed that the procedures were not adequate and that they had to devise additional monitoring aids. The same was also confirmed by the Director overseeing the supervision team.

Un-fulfilment of Omanisation Requirements

Another problem that came to light during the field research was to do with Omanisation. The company used a low numbers of local staff on the O & M project, amounting to 12% of the total manpower of the project, and further, those Omanis used were in the very low unskilled jobs. In addition, the O & M contractor did not comply with the terms of the contract in enhancing the Omani staff by providing them with

training and career development in order to assign them with skilled jobs. Hence, most of the Omanis on the contract are working on unskilled jobs like helpers (assistants to skilled labour) and drivers.

The contract documents did not specify any percentage of Omanisation out of the total manpower strength for the project. The only condition that was implied on the O & M contractor was to satisfy the Omanisation regulation applied by the concerned government ministry, which provided at that time that all companies have to satisfy a 20% of Omanisation in the company as a whole. The O & M contractor while satisfying such requirements had no contractual obligations to provide a large number of Omanis on the project. While it is acknowledged that employing expatriates costs less than Omanis, the O & M contractor opted to provide more of expatriates than Omanis (who are believed to cost more) with the justification that Omanis were not readily available in the market for the operation and maintenance roles specified in the contract. It must however, be stressed that the principal deficiency resided in the contract documents where no percentage of Omanisation had been stated. When the question on this issue was raised to the O & M contractor their response was "*the contract documents did not obligate us to provide certain percentage of Omanisation in the project but to satisfy the requirements of 20% in the company overall as stipulated by the government. It has been difficult to provide qualified Omanis in certain fields. However, we are doing our best to improve the Omanisation on the project and we have contributed heavily in the government programme (Sanad) that is encouraging Omanisation in the private sector*".

Higher Demand for Spare Parts in the First Year

Among the main problems that were raised about the contract during the operation stage was that expenditure on spare parts, consumables, chemicals, and lubricants, (the supply of which the author's organisation was contractually responsible for), was very high during the first year of contract. Many people within the organisation thought the contract was not successful because of this issue.

This finding attracted a closer attention from the author, hence the issue was studied in-depth by examining project's documentation, discussions with the organisation's supervision team and the contractor during interviews and by carrying out cost

comparison of expenditures on these elements before and after 'Contracting Out' as part of evaluating the effectiveness of 'Contracting Out' the O & M services as would be seen in section 10.4.2 (b) of this case study. The study revealed that this issue arose due to the fact that a lot of refurbishment work to facilities, that was programmed to take place during the year that preceded privatisation, did not take place. As a Contract Supervisor puts it the reason for this was "*slowness in response and loss of interest from in-house existing staff once they came to know about the move and its possible effect on them*", hence there was no incentive to progress refurbishment.

All these repair/refurbishment works had to be done during the first year of the contract as they were identified during the joint inspection and handing over meeting. The Director overseeing the supervision team stated that "*it is true that the expenditure on spare parts was higher in the 1st year after the O & M Services were contracted out. But a major reason for such a phenomena is the fact that a lot of maintenance work was overdue when the company took over. The contract stipulated that all snags found during the handing over/joint inspection period have to be rectified before the contractor took over the maintenance. Therefore, a lot of repair works were carried out during the 1st year*". Hence, the expenditure on spare parts was high during that year.

The O & M contractor was also asked about what could have been the reason for such an increase, who stated "*one of the reasons for that was that we were not aware of items stored in the organisation's buffer store therefore we tended to order without knowing what was available. In addition, the learning curve in getting to know the facilities and the actual requirements also played a role. But one of the major reasons for the increase in expenditure during the first year was the large number of snags that were identified during the joint inspection*".

In addition, it was found during the field research that it was not made very clear to the concerned staff in the affected unit who would be responsible for the supply of spares. The scope of the contract initially stated that the contractor would be responsible for the supply of certain elements of spares, consumables, etc. On this basis concerned staff were led to believe that the contractor will provide spares, therefore in the year that preceded 'Contracting Out' no spares were ordered for the following year. What happened was that the affected unit remained responsible for the supply of spares resulting in the above average spare orders during the first year of contract. Moreover, some of the plant especially air-conditioning, had reached their useful expected working

life by the time the O & M services were contracted out, it was not until the second year of contract that these units (plant) underwent major replacement.

As will be seen in section 10.4.2 (b) the author's cost comparison confirmed there was an increase in these expenditures in the first year due to the large number of snags that were rectified during the first year. However, these expenditures saw a huge drop during the second year. The cost comparison also showed that there was a steady decrease in expenditure of spares, consumables, chemicals etc in the following years confirming the reason stated for such an increase in the first year.

Delay in Spare Parts Supply

Among the other problems that were identified during the field research was the delay in receiving the spare parts necessary for executing the O & M services. This problem was an initial one that was overcome once the automated maintenance programme was established. A main reason for such a delay was that there were no written procedures for spare ordering and that the concerned department was not involved from the beginning. According to the O & M contractor, which was also stated in the minutes of one of the regular progress meetings, there was also a delay from main stores during contract execution despite the fact that spares were ordered long before the required date based on the newly installed computerised maintenance programme.

Resistance to Change

Changing from one mode of operation to another one is one area that is always not trouble free. Changing from the in-house O & M services provision to contractor provision on the O & M case study was not nicely welcome in the initial stages of contract. A Maintenance Director stated that "*many parties within the organisation were very sceptical about the worthwhileness of the move. Resistance to change could be seen from Personnel, finance and other Departments*".

A member of the organisation's supervision team also acknowledged such resistance to change from two sides "*the first one was from in-house staff that was carrying out the O & M services. Morale of in-house staff went down when they came to know about the move therefore in major cases they were reluctant to do the work. The other resistance*

was from end users stating that they have not been informed about the move". The end users resistance could also be seen in their initial reluctance to accommodate contractor's staff in the vacated accommodation blocks on campus. The contractor also noticed such resistance "*but mainly from technician level down that was noticed during the handing over phase due to the feeling of loss of job in that particular location".*

Security

One of the main risks of 'Contracting Out' within the organisation is the security side. A lot of confidential information can be accessed by the contractor through working on the organisation's facilities which might jeopardise security of camps and bases. Moreover, bringing contractor's staff, especially expatriates incurs additional risks. In an interview with a senior security officer on the camp on which the O & M services were contracted out concern was expressed over contractor's staff working inside the Ministry's camps. He stressed that they should be allowed sufficient time to plan and carry out their security checks before contractor's staff can be allowed on site. On the O & M contract, contractor's staff violated the security regulations while working on the organisation's camp which meant that some of contractor's staff had to be removed from site.

10.4 Effectiveness of 'Contracting Out' O & M Services

10.4.1 General

One of the main objectives of this research is to evaluate the effectiveness of 'Contracting Out' the organisation's in-house services to the private sector companies.

This section addresses the effectiveness evaluation of 'Contracting Out' the O & M services under Case Study 2 using the evaluation framework developed in Chapter 7. As stated in Chapter 7 the effectiveness evaluation aims at assessing whether the organisation's objectives as far as cost savings, efficiency, improvements in quality of service and other benefits are achieved, and the extent of the effects of 'Contracting Out' on the existing staff affected by the move are minimised .

This section of the case study is therefore divided into five main subsections: cost comparison, efficiency, quality of service, effects on the organisation's existing staff and the effectiveness evaluation.

10.4.2 Cost Comparison

General

As part of the effectiveness evaluation of 'Contracting Out', a cost comparison was carried out for Case Study 2. The comparison involved calculation of operating costs before 'Contracting Out' to arrive at a pre-'Contracting Out' baseline and to compare this with actual costs after 'Contracting Out'. The overriding aim has been to determine whether the anticipated cost savings were achieved or not. This comparison of operating costs before and after is based on two cost groups:

(i) Manpower and manpower related aspects of the operation, and

(ii) Other costs including spare parts, consumables, chemicals, lubricants and other directly related costs.

It must be stressed that the documentation review showed that the 18% cost savings were anticipated to take place in the first group i.e. manpower and manpower related aspects of the operation. The aim of extending the comparison to the second group is two folds. Firstly, to address the concern raised during filed research on the increased expenditure of spare parts, consumables, chemicals, and lubricants in the first year of the O & M contract as discussed in section 10.3.4. Secondly, to arrive at the effect of contractor's activities on the expenditure of the directly related costs, including the above, the supply of which remained under the responsibility of the organisation after 'Contracting Out', so that conclusions could be made on the overall cost effectiveness of 'Contracting Out' the O & M services.

Therefore, this part of the case study is sub-divided into two sections as follows:

a) Manpower and manpower related costs,

b) Expenditure of spare parts, consumables, chemicals, lubricants, and other costs overall including natural gas, diesel and tools.

The steps followed in this section are in line with the cost comparison flow diagram discussed in Chapter 4.

a) Manpower and Manpower Related Costs

Feasibility Study Calculation Review

Before the comparison could be made an examination of the project's feasibility study report was carried out to arrive at the basis of such a study so that necessary adjustments based on the findings from documentation review and field research could be made leading to the establishment of the pre-'Contracting Out' baseline.

The in-house operating costs for the O & M services included in this case study, based on which the feasibility study was prepared, were calculated by the Ministry's Internal Audit Department. A review of such calculation revealed that they were based on the following manpower and manpower related cost elements:

- A total staff number of 116 were carrying out the O & M services before 'Contracting Out'. 38% of them were Omanis and the remaining 62% were expatriates from the Indian Subcontinent.
- The manpower costs for the 116 staff comprised mainly of salaries that were paid to the above staff. The manpower related costs were made up of overtime, pension contribution (Omanis only), travel expenses, medical/health expenses, catering subsidies, accommodation and additional part time hired labour which the organisation used to hire from time to time to cover shortage of staff in the affected unit.

The only other cost that made the operating costs referred to above is vehicles that were directly used by the O & M staff. As far as vehicles cost is concerned, the operating costs were based on 11 vehicles used by the in-house team to carry out the O & M operations.

The feasibility study report, comparing the current operating costs with the most realistic tender figure, concluded that the project was economically viable. The report highlighted that 'Contracting Out' the O & M services to the private sector would result in an anticipated cost savings of 18% compared with the organisation's current operating costs. The 18% cost savings were based on the following:

- None of the 116 staff included in the operating costs calculation would be subsequently required for the O & M services. All the original 44 (38%) of Omani staff out of the total 116 staff would be transferred to the successful contractor.
- The 11 vehicles that were used by the O & M staff would become surplus and would be transferred to other locations within the organisation.

However, a documentation review of what happened at the time of awarding the contract revealed that it became impossible to transfer any of the Omani staff to the successful contractor due to problems encountered by the organisation with the transfer process as discussed earlier in this case study. This meant that the preferred contractor had to submit a revised offer on the basis that all required staff had to be provided by him.

Hence, the anticipated cost savings did not hold true due to this change in scope and that negotiation over price reduction in the originally submitted offer took place.

Pre-'Contracting Out' Baseline

In light of the above finding, the operating costs pre-'Contracting Out' were calculated by developing MS Excel sheets. The new operating cost figure is used as a more realistic baseline for the cost comparison in this case study.

Based on the revised baseline calculation the anticipated cost savings pre-'Contracting Out' were found to be 22% and not 18% as anticipated by the feasibility study report.

Cost Savings Post 'Contracting Out'

While the above sections have been based on data before 'Contracting Out' had taken place, a review of what happened at time of handing over the facilities to the O & M contractor was carried out. The aim of this was to re-check the correctness of the data incorporated in the feasibility study so that necessary adjustments can be made to the pre-'Contracting Out' baseline. The following sections elaborate more on this.

As stated above the anticipated cost savings calculated before 'Contracting Out' were based on all the 116 staff becoming surplus and be either utilised by the organisation in

productive posts in other locations of the organisation, or made redundant (expatriates). In addition, all of the 11 vehicles that were used by the O & M staff would become surplus and would be transferred to other locations within the organisation.

Examination of the feasibility study report and the data collected for the purpose of this research on proposed manpower and vehicles deployment after the O & M services were handed over to the successful contractor revealed the following:

- The number of staff that was carrying out the O & M services and would become surplus was 111 and not 116 as used in the Auditors report.
- Only 5 vehicles were declared surplus and not 11 as originally envisaged.

Based on these findings and due to that the original data used by the Auditors in calculating the operating costs could not be easily traced, the operating costs were re-calculated based on the manpower related data collected by the author for the research. Based on this re-calculation the adjusted pre-'Contracting Out' baseline was arrived at in order to pave the way for calculation of the actual cost savings as would be seen in the next section.

Actual Cost Savings

In order to arrive at the cost effectiveness of 'Contracting Out' the O & M services, the actual cost savings were calculated by comparing the actual amount of expenditure after "Contracting Out" with the adjusted pre-"Contracting Out" baseline so that they can be compared with the anticipated cost savings pre-'Contracting Out'.

Before such calculations could be made a review of documentation on actual manpower deployment, a year after "Contracting Out" revealed the following:

- Not all of the 111 staff became surplus. 15 of them were retained on the same facilities and 13 staff although transferred to other locations within the organisation, they did not occupy productive posts as they were held as supernumerary (over and above the existing manpower establishment of that location). This finding if held correct would have meant that the total expenditure of these 28 staff could not be considered as cost saving as they have not become surplus. Hence, only the remaining 83 of the total 111 staff could be considered surplus and

would constitute a cost saving as majority of them would have been transferred to productive posts, made redundant or retired.

- The organisation incurred additional costs as some of the displaced staff had to be retained on the facilities for some time during the initial stage of the contract period in order to ensure proper handing over to the contractor and to rectify snags that were identified during the joint inspection and handing over to the O & M contractor. In addition, the organisation provided free accommodation to the contractor's staff during mobilisation stage. All of the these factors meant that the organisation incurred certain costs during the transition stage that ought to have been taken into account when calculating the actual cost savings.

However, during the field research an examination of what exactly happened after 'Contracting Out' was carried out by means of discussion with the organisation's staff from concerned departments and site visits and the following was found:

- Out of the 15 staff retained on the same facilities 4 were transferred to other locations and occupied productive posts (3 of these 4 were transferred to locations where their manpower was included in the study but their O & M services were not included in the scope of the O & M contract). In addition, another 4 staff were retained against existing vacancies (overall) or for other retained work not part of contractor's scope e.g. gas section. Therefore, these 8 can still be considered as surplus and would constitute a cost saving, but the remaining 7 staff were found to be supernumerary.
- Out of the 13 supernumerary staff 8 were held supernumerary for varied periods of time but were eventually transferred to productive posts, while the remaining 5 were held supernumerary for the full contract duration. It follows that cost savings accrued only after the staff were transferred to productive posts.
- The retention of some staff on the facilities during the initial stage of the contract was justified as they were used to rectify all snags and defects highlighted during hand over to the contractor. This option was on one hand thought to be cheaper than bringing in a third party to carry

out the rectification work and on the other hand retaining such staff was also a contingency action by the organisation in case of failure by the contractor. In addition, the contractor was not charged for the accommodation as it was not cost significant and that the organisation wanted to give an incentive to the contractor as they were providing extra staff at no cost to the organisation.

Hence, only 91 out of the 111 staff became surplus and can be considered a cost saving in addition to remaining supernumerary staff after they were eventually posted to productive posts.

Based on these findings the actual cost savings were calculated by comparing the annual operating costs post 'Contracting Out' (adjusted baseline) with the actual amount of money paid to the O & M contractor in each year. Adjustments were made to reflect the above findings as far as retained and supernumerary staff are concerned.

Based on these calculations the actual cost savings were found to be as shown in Table 10.2 below.

Table 10.2 Case Study 2 Actual Cost Savings

	Year 1	Year 2	Year 3	Year 4	Average
Actual cost savings	8%	15%	13%	11%	11.75%

In order to get a clear comprehension of the comparison of anticipated cost savings with actual cost savings as a result of 'Contracting Out' Table 10.3 below was devised for ease of scrutiny.

Table 10.3 Case Study 2 Comparison of Anticipated and Actual Cost Savings

Cost savings	Year 1	Year 2	Year 3	Year 4	Average
Anticipated savings pre-'Contracting Out'	22%	22%	22%	22%	22%
Actual cost savings	8%	15%	13%	11%	11.75%

As can be seen from table 10.3, the anticipated cost savings pre-'Contracting Out' of 22% were found to be 8% in the first year (immediately after 'Contracting Out'). Such a huge drop in cost savings is the result of the following adjustments:

- Cost of supernumerary staff in the first year, and

- Cost of retained staff on the facilities after 'Contracting Out'.

However, in the 2nd, 3rd and 4th years that followed the cost savings were found to be at 15%, 13% and 11% respectively. This has taken place because part of the retained manpower in the 1st year were transferred to their intended locations, similarly the supernumerary staff were transferred to productive posts where they constituted a cost saving. Although the cost savings should have been on the rise in the following years it can be seen that they were reduced. Data analysis showed that this was due to that the amount of money paid to the contractor has been fluctuating. The amount was high during the first year as it covered contractor's mobilisation charges but was lower in the second year followed by a steady increase of 3% (approx.) in the third and fourth years to cover staff salaries increments and inflation.

It is worthwhile stating that the comparison revealed that the total amount of money paid to the contractor does not equal the accepted contract value. The reason for that is that when the organisation decided to accommodate contractor's staff on site the company offered a discount of 3.4% which more or less explains such a difference with the contract value.

Summary of Comparison for Manpower and Manpower Related Costs

This section has included a cost comparison of pre and post 'Contracting Out' operating costs of the O & M services under Case Study 2, but mainly for manpower and its related costs with the aim of arriving at the actual cost savings in this side of the operation in comparison to those anticipated by the feasibility study.

The cost comparison in this section has revealed that the total actual cost saving is 11.75% only as far as the manpower and its related costs are concerned. This percentage is less by 6.25% compared with the originally anticipated cost savings of 18%, stated in the feasibility study, on which the decision to contract out was made and is also less by 10.25% compared with the pre-'Contracting Out' anticipated cost saving of 22% calculated for the purpose of this research.

b) Expenditure of Spare Parts, Consumables, Chemicals, Lubricants and Other Costs

The previous section compared operating costs as far as manpower and its related cost is concerned before and after 'Contracting Out'. However, this section aims at comparing the expenditure on other costs directly related to the O & M services contract before and after 'Contracting Out'. These other costs include expenditures on spares, consumables, chemicals, lubricants, natural gas, diesel and tools before and after 'Contracting Out'.

While the overriding aim has been to arrive at the true picture of nature of cost savings in this side of the operation, the interviews and the data gathered on expenditure on these items in the first 2 years of the contract revealed an increase in expenditure during the first year compared to the year prior to 'Contracting Out' as discussed earlier in this section.

Therefore, this section is sub-divided into two parts. The first part is an in-depth analysis of expenditure on spares, consumables, chemicals and lubricants in the four main areas of the O & M contract; namely, power station, RO plant, STP and air-conditioning before and after 'Contracting Out' but for the two years only, to address the concern over the increase of expenditure on these items after 'Contracting Out'. The second part is a comparison of expenditure in these four items and all other costs, addressed above, related to the operation before and after 'Contracting Out' for the full contract duration of 4 years to arrive at the overall cost savings in these related costs in addition to that of the manpower cost discussed above.

The comparison is based on changes relative to pre-'Contracting Out' baseline on similar grounds to the cost comparison at (a) above. The results are illustrated by means of graphical representation for ease of sight.

i) Expenditure of spare parts, consumables, chemicals and lubricants

Power Station

Taking a close look at the expenditure of O & M spare parts for the power station in the first and second years it could be seen from figure 10.2 that expenditure on spares was less during these two years compared with the baseline cost of the year before 'Contracting Out' by 39% and 38% respectively. The same could also be said about

expenditure on lubricants where there was a reduction of 60% in the first year and 67% in the second year compared with the year before 'Contracting Out'. Expenditure on consumables, however, was higher during the first and second years of the contract by

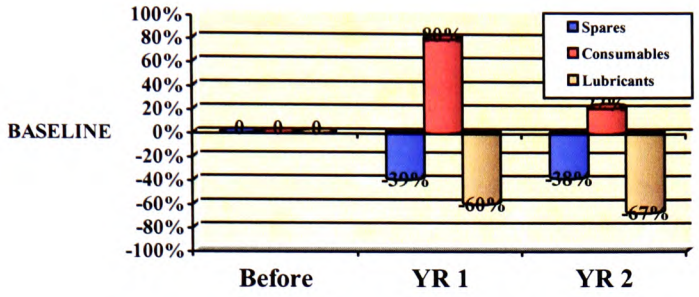

Fig. 10.2 Power Station Expenditure Pre & Post 'Contracting Out'

80% and 22% respectively. Research into the reason for this revealed that overdue maintenance and inherited defects were rectified during the first year and to a lesser extent in the second year of contract.

As to the overall expenditure of spares, consumables and lubricants for the power station and as shown in Fig. 10.3 it was found that there was an overall reduction during the first and second years compared with the year before 'Contracting Out' by 37% and 38% respectively.

It must however be noted that in addition to the normal O & M spares about 26% (of total expenditure on spares consumables and lubricants in the year before "Contracting

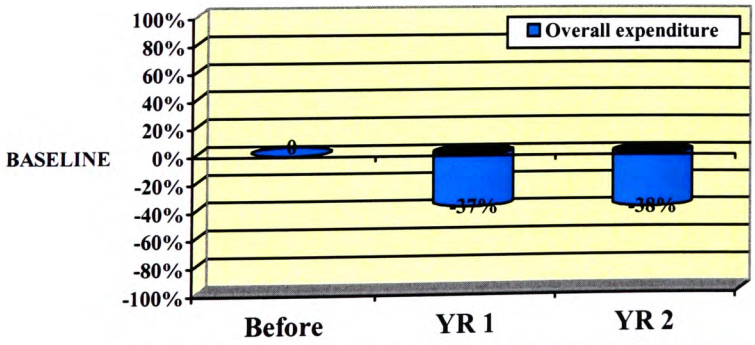

Fig. 10.3 Power Station Overall Expenditure Pre & Post 'Contracting Out'

Out" i.e. baseline) additional expenditure on spares in the 1st year and 2% in the second year of contract was spent on rectifying snags that were identified during joint inspection between the organisation and the O & M contractor. Some additional money was also spent on modifications/improvements to the power station during the first and second years of contract at 18% and 1.5% respectively.

This additional expenditure has not been included in the above comparison as they are not the direct result of the contractor's O & M activities, but are related to rectifying defects and snags identified at take over inspection. Rectifying such defects and snags is the responsibility of the organisation as per terms of contract before the contractor could fully take over the facilities.

Nonetheless, even if these were included there would be an overall increase of expenditure on these elements in the first year by 7% only but a reduction in the second year by 34% in comparison to the baseline.

RO Plant

Comparison of expenditure on RO Plant O & M spare parts during the 1st and 2nd year of contract with that of the year before 'Contracting Out' indicates a significant reduction of 38% in the first year and 76% in the second year in expenditures as could be seen in Fig. 10.4. The same could also be said about chemicals, but with only 8% in the first year and as high as 63% reduction in the 2nd year. On the other hand expenditure on consumables was higher during the first year by 75% but less during 2nd year by 66%.

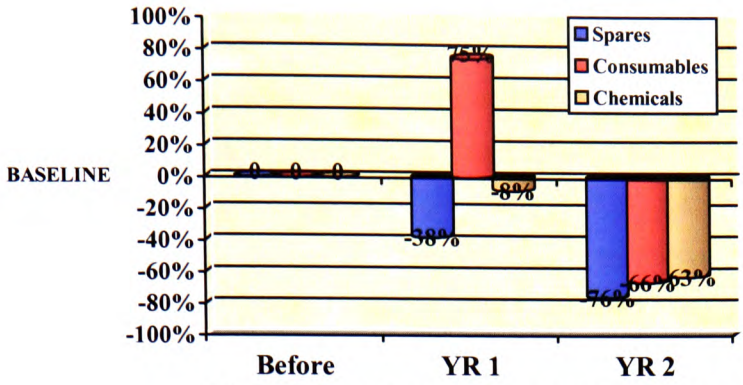

Fig. 10.4 RO Plant Expenditure Pre & Post 'Contracting Out'

An investigation into the reason for the huge drop in expenditure of spares and consumables in the RO plant in the second year revealed that the contractor who installed the RO Plant was on site that year rectifying snags like replacement of pumps, pump casings etc. as these were under warranty. As for the chemicals, there was a problem of negative LSI* that was much less than before which meant that the dosing rate of anti-corrosion chemical could be reduced.

Looking at the overall expenditure on spares, consumables and chemicals for the RO Plant it could be seen from Fig. 10.5 that expenditure reduced by 11% in the 1st year and 64% in the 2nd year compared with the base line.

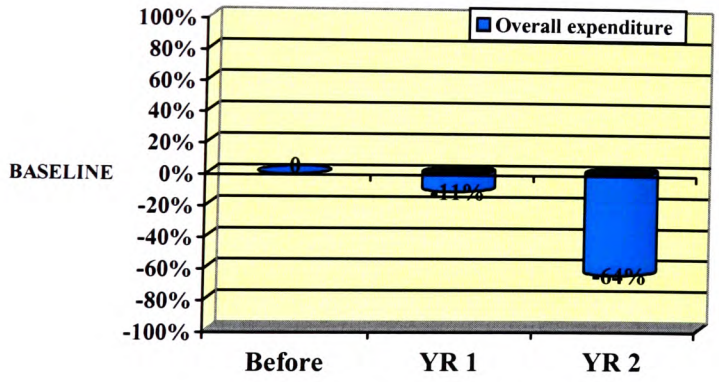

Fig. 10.5 RO Plant Overall Expenditure Pre & Post 'Contracting Out'

Some additional money was spent on the replacement of membranes (which are considered a spare) during the first and second year of contract operation. Research

* LSI: Langelier Saturated Index. Indicates the amount of corrosion in the product water. The more negative the LSI the more corrosion in the product water.

revealed that membranes are normally changed annually at a rate of 8% per annum however, every four years all membranes are normally replaced. What happened in the 1st year of contract operation was that 8% was replaced with total replacement in the second year. In the year that preceded 'Contracting Out' no membranes were replaced. It must be stated that replacement of membrane should not be treated as a routine O & M service as it is funded separately (from other recurrent budget) and the organisation would be expending that amount of money anyway whether the services were carried out in-house or by a contractor.

Sewage Treatment Plant (STP)

Analysis of data collected for the expenditure on O & M spare parts, consumables and chemicals for the STP part of the project revealed that there was an increase in expenditure during the 1st year of contract in the region of 39% for spares, 64% for consumables and 35% for chemicals (see Fig. 10.6).

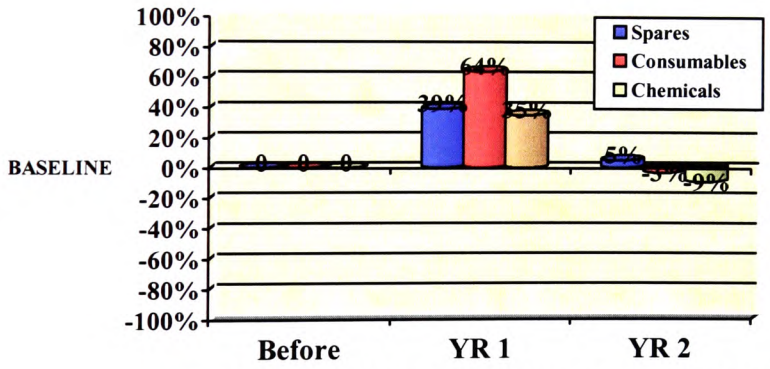

Fig. 10.6 S.T.P. Expenditure Pre & Post 'Contracting out

However, the figures of consumables and chemicals saw a decrease during the 2nd year of contract operation by 3% and 9% respectively, compared with those figures of the year before the O & M services were contracted out. Expenditure on spares during the second year, despite their decrease compared with the 1st year, remained higher than those of the year before 'Contracting Out', but only by 5%.

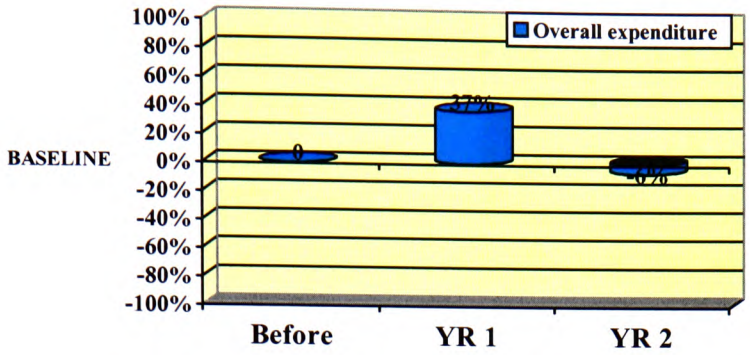

Fig. 10.7 STP Overall Expenditure Pre & Post 'Contracting Out'

An overall assessment of expenditure on spares, consumables and chemicals, in STP side of the operation revealed that there was an overall increase in expenditure during the 1st year of the contract of 37%. During the 2nd year, however, expenditure reduced compared with 1st year and they were lesser than the year before 'Contracting Out' by 6% (See Fig. 10.7).

It was detected that, as with the Power Station, some money was expended during the first year, and to a lesser extent in the second year, on rectifying take over defects that were highlighted during the joint inspection and on some modifications to the plant.

Air-conditioning

Analysis of data collected on expenditure for consumables for the air-conditioning side of the operation revealed that expenditure was higher in the 1st year by 19% compared with the year before 'Contracting Out'. However, during the second year expenditure

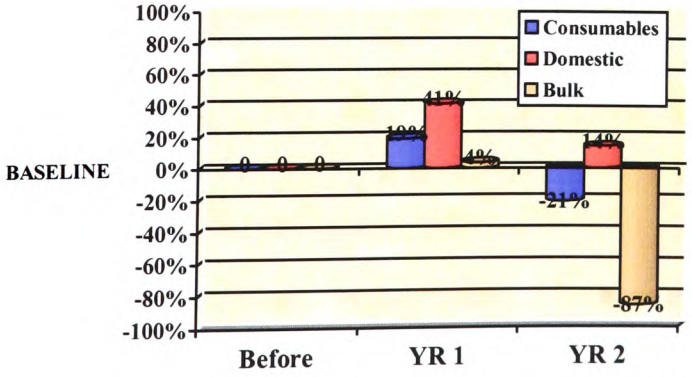

Fig. 10.8 A/C Expenditure Pre & Post Contracting Out

significantly reduced compared with the 1st year and was less than that for the year before 'Contracting Out' by 21%. Expenditure on spare parts for both domestic and bulk A/C, was higher during the first year by 41% for domestic A/C and by only 4% for Bulk A/C. During the 2nd year, expenditure on spare parts of domestic A/C reduced by 27% compared with the 1st year but was still higher compared with the expenditure of the year before 'Contracting Out' by 14%. Interestingly expenditure on spare parts of bulk A/C for the second year dropped to a bare minimum and were lesser than the 1st year by 83% and were 87% less than the year before 'Contracting Out' (see Fig. 10.8).

Overall the expenditure on spare parts and consumables for air-conditioning side of the operation increased during the 1st year of contract operation by 17%. However, expenditure reduced drastically during the 2nd year compared with the 1st year of contract operation and were 50% less than the year that preceded 'Contracting Out'.

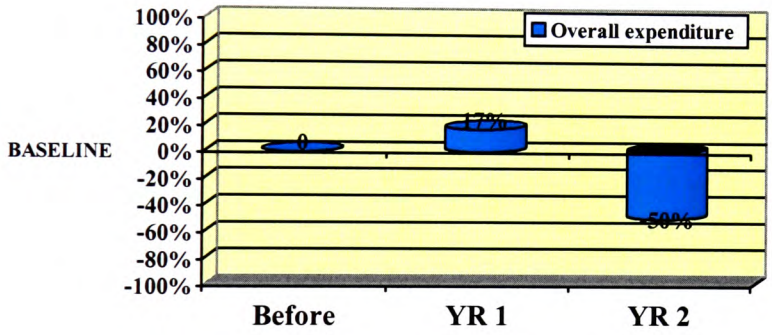

Fig. 10.9 A/C Overall Expenditure Pre & Post 'Contracting Out'

It must be noted that some money was expended during the 1st year of operation to rectify defects that were identified during the joint inspection of the facilities.

The increase in expenditure on consumables in the first year was due to their being more maintenance carried out during that year as a result of taking over snags. A lot of snags were identified during the joint inspection as a lot of maintenance work was not done during the year before 'Contracting Out' as revealed during the interviews. Also, the same is applicable for the domestic and bulk A/C.

Further research was carried out to find out the reason for the huge drop in expenditure of spare parts for the Bulk A/Cs during the second year of operation as stated above. The findings revealed that the facilities had undergone a major replacement during the

second year of the O & M contract as they reached their maximum working life expectancy. Therefore, the units did not require much maintenance during that year as they were still under defects liability period by the contractor that undertook the replacement. Hence, the number of repairs needing spare parts was minimal.

Overall Assessment of Spares, Consumables, Chemicals and Lubricants

Based on the research findings and the above analysis carried out on the expenditure of spares, consumables etc. it is fair to say that although the expenditure of spares and consumables was high during the 1st year of contract in some sections of the contracted out O & M services, namely STP and A/C sides of the operation, as could be seen from Fig. 10.10, the overall expenditure decreased by 0.3% during the 1st year. A similar situation occurred in the second year however, there was a huge drop of 49% compared with the year before 'Contracting Out' as could be seen from Fig. 10.11.

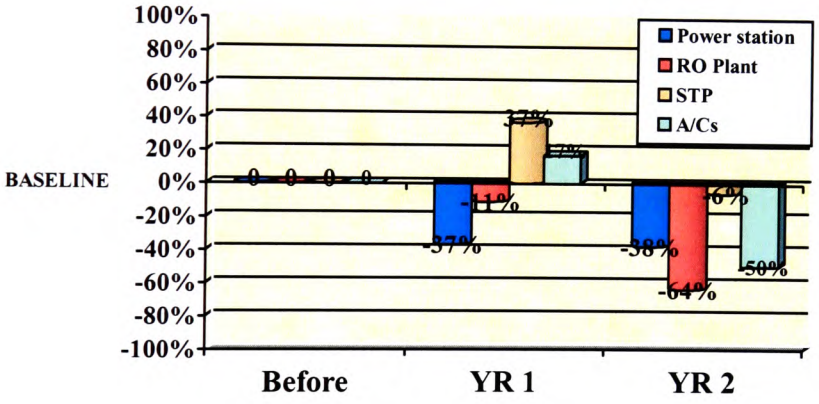

Fig. 10.10 Power Station, RO Plant, STP & A/C Combined Expenditure

The above overall comparison has not taken into account cost of snags rectification and improvements/modification to the plant as these are not direct result of contractor's routine O & M operations. However, if these were included, the analysis has shown that the expenditure of spares, consumables etc. was very high during the 1st year of contract in some sections of the contracted out O & M services namely the STP and Air-conditioning at 134% and 30% respectively (Fig. 10.12). But the overall expenditure increased by 20% only during the 1st year and it is interesting to note that it was

drastically reduced in the second year compared with the year before 'Contracting Out' by 48% as could be seen from Fig. 10.13.

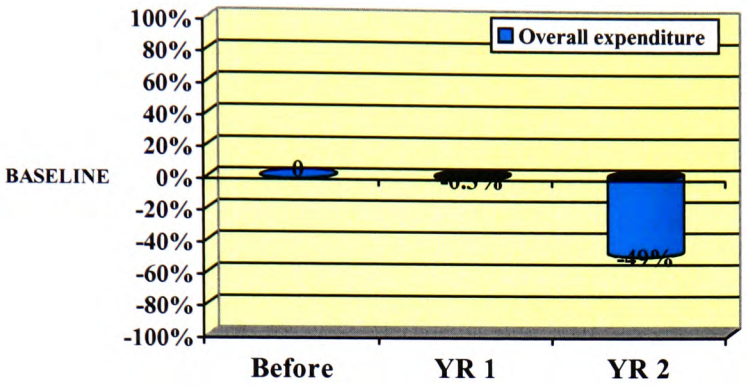

Fig. 10.11 O & M Services Overall Expenditure Assessement

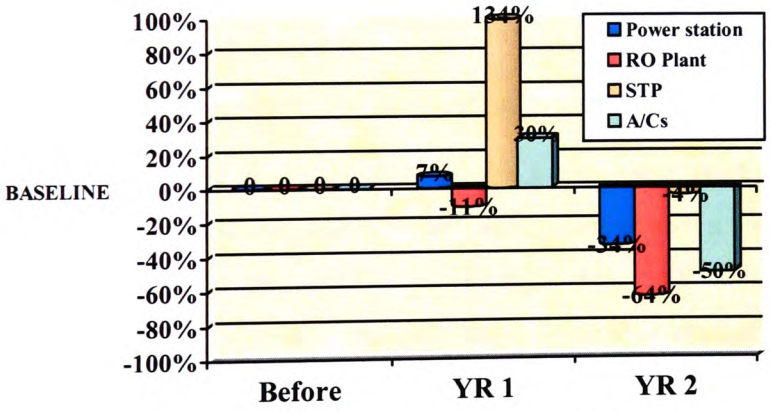

Fig. 10.12 Power Station, RO Plant, STP & A/C Combined Expenditure Including Snags

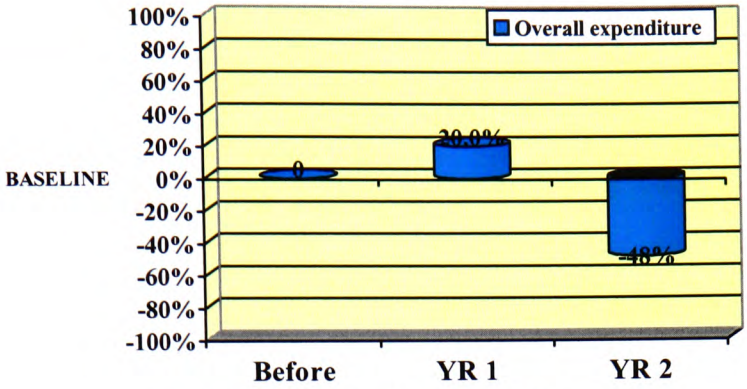

Fig. 10.13 O & M Services Overall Expenditure Assessement Including Snags

Summary

In summary, in the first year after 'Contracting Out', as mentioned earlier, there was an increase in expenditure of 20% on spares, consumables, lubricants and chemicals due to the added cost of rectifying the take over defects identified during the joint inspection between the organisation and the O & M contractor. The fact that these expenditures saw a big drop during the second year (48%) is a reflection of the more efficient usage of spare parts, chemicals, lubricants and chemicals by the O & M contractor.

ii) Other Related Costs for the O & M Services

Having established in the above section that the longer term trend for expenditure on spares, consumables, chemicals, and lubricants was downward, a comparison was also carried out to arrive at the total savings in expenditure of other costs affecting directly the costs of the O & M services. In addition to spares, consumables, chemicals and lubricants; these other costs included natural gas, diesel and tools.

The comparison was made on the basis of comparing expenditure in these items in the years after 'Contracting Out' in relation to a pre-'Contracting Out' baseline. Table 10.4 summarises such calculation by showing the percentage of cost savings in the expenditure of other costs for the O & M contract post 'Contracting Out' in relation to the pre-'Contracting Out' baseline.

Table10.4 Cost savings in other related costs for Case Study 2

	Year 1	Year 2	Year 3	Year 4	Average
Cost saving	1.01%	13.59%	9.07%	7.34%	7.75%

As can be seen from table 10.4 cost savings have taken place in the overall expenditure of other directly related costs to the O & M services that were still under the responsibility of the organisation after "Contracting Out" amounting to 1.01%, 13.59%, 9.07%, and 7.34% in the 1st, 2nd, 3rd, and 4th years respectively with an average cost saving of 7.75% over the 4 years contract duration. The results show that the private sector company has been more efficient in its operation and very cost effective compared with the organisation's in-house team.

Summary of Cost Savings From Manpower and Other Expenditures

In order to have an appreciation of the total cost savings resulting from 'Contracting Out' the O & M services it is necessary to group the cost savings for the two cost groups: (i) Manpower and manpower related aspects of the operation, and (ii) Other costs including spare parts, consumables, chemicals, lubricants, natural gas, diesel and tools, directly related to the O & M activities that have taken place. Table 10.5 shows the overall cost savings for Case Study 2.

Table10.5 Case Study 2 Overall Cost Savings

Cost savings	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Average**
Manpower & its related costs	8%	15%	13%	11%	11.75%
Other costs	1.01%	13.59%	9.07%	7.34%	7.75%
Total cost saving	**9.01%**	**28.59%**	**22.07%**	**18.34%**	**19.50%**

Although the overall actual cost savings of the project were not significant during the first year, at 9.01% only, the cost savings in the following years reached 28.59%, 22.07% and 18.34% respectively. The somewhat low percentage of cost saving in the first year is mainly attributable to the fact that the in-house manpower deployment did

not take place as intended, as discussed earlier, which means that the anticipated cost savings in manpower have not fully taken place.

Based on the above findings the overall cost savings for the project over the four years contract period are assessed at 19.50%. Coupled with this cost saving there has been a significant reduction in cost of unit production as will be seen in section 10.4.3 *(Efficiency)*. In addition, documentation review of a presentation given by the O & M contractor half way through the fourth year of contract revealed that the organisation has also accrued additional cost savings in some repair and refurbishment works.

10.4.3 Efficiency

Based on the effectiveness evaluation framework developed for this research efficiency is based on an improvement in productivity and a reduction of cost per unit of production.

Examination of data collected on performance before and after 'Contracting Out' the O & M services revealed an increase in the number of units produced during the years post 'Contracting Out' and that the cost of producing each unit was also less.

Before 'Contracting Out' the organisation had 111 staff costed against executing the O & M services in addition to the supervision team and the hired part time labourers (2.6% over and above the cost of in-house staff). After 'Contracting Out' the contractor has been executing the same service with 66 staff which is the minimum manpower requirement stated in the contract. Table 10.6 shows the number and distribution of staff before and after 'Contracting Out'.

Table 10.6 Case Study 2 Manpower before and after 'Contracting Out'

SECTION	Before 'Contracting Out'	After 'Contracting Out'
Power Station	44	32
RO Plant	24	11
Sewage Treatment	17	5
Air-conditioning	26	18
Total	**111**	**66**

Despite a reduction in manpower after 'Contracting Out', of 41%, there has been an improvement in productivity especially in power and water as shown on table 10.7, which shows that the O & M services have been produced more efficiently after 'Contracting Out'.

Table10.7 Performance statistics in power & water production after 'Contracting Out'

	% of increase in production			
	Yr.1	**Yr.2**	**Yr.3**	**Yr.4**
Power	4.3	-2	7.4	-2.6
Water	3.3	11.6	9.7	24.6

(Note: The negative sign in table 10.7 does not mean that there has been a reduction in output but it is a result of that the power production in the particular camp was fluctuating and that there was also another source of power, from the national grid)

This improvement in productivity was accompanied by a reduction in cost of unit production averaging to 12.34%, 24.82%, 15.94% and 16.29% in the 1st, 2nd, 3rd and 4th years respectively (Table 10.8). Table 10.8 shows that there has been a substantial reduction in cost/unit of production in STP by 29.38%, 35.01%, 23.10% and 26.84% over the four years and a reasonable reduction in other areas of operation through out the contract. Such substantial reduction in the STP is mainly attributable to the reduction in manpower in that particular section, by approximately 70%, compared to that before the services were contracted out as could be elicited from table 10.6.

Table10.8 Percentage of Reduction in Unit Costs

	% reduction in unit costs			
	Yr.1	**Yr.2**	**Yr.3**	**Yr.4**
Power station	11.56	8.61	12.68	6.32
Water treatment	13.28	34.26	16.84	25.27
STP	29.38	35.01	23.10	26.84
Air-conditioning	-4.88	21.41	11.15	6.73
Average	12.34%	24.82%	15.94%	16.29%

(Note: These figures are based on performance data gathered during field research and processed by 'MS Excel Software' to arrive at the percentages reduction in comparison to a pre-"Contracting Out" baseline).

This in turn demonstrates that the efficiency element of the effectiveness evaluation has been satisfied. It also shows that the concerned unit was overloaded as far as manpower aspects of the operation is concerned. Also, productivity and efficiency of the in-house team was low.

10.4.4 Quality of Service

The measurement of quality of service is based on comparing number of breakdowns, average duration of breakdowns, number of complaints and response time before and after "Contracting Out".

An assessment of collected data on the quality of O & M services after 'Contracting Out', supported by interviews with supervision team, end users and the O & M contractor, revealed that the quality of service was better after 'Contracting Out'.

The following sections shed some light on the research findings in this regard. The term 'breakdowns' used in the performance statistics tables refers to major failures resulting from the O & M contractor's internal operations.

The performance statistics are given for the three main services that affect directly the end-users, these are power, water and air-conditioning. The STP has not been considered due to that the service provided by the organisation does not effect the end user as whatever waste water is received by the plant gets processed in full.

Table10.9 Performance statistics for Power Station

	Before	Year 1	Year 2	Year 3	Year 4
No. of breakdowns (GT Tripping)	10	4 (60% less)	4 (60% less)	2 (80% less)	2 (80% less)
Average duration of breakdowns	Not recorded	12.5 minutes	29 minutes	20 minutes	4.5 minutes

As could be seen from table 10.9 the number of breakdowns of Gas Turbines in the power station were less by 60%, 60%, 80% and 80% in the first, second, third and fourth years after "Contracting Out'. These results show a drastic reduction in the number of breakdowns in the first and second years and a further decrease in the following years. This implies more efficient operations by the O & M contractor and

implementation of planned preventive maintenance programmes which were not there before 'Contracting Out'.

The average duration of breakdowns averaged at 12.5, 29, 20 and 4.5 minutes in the 1st, 2nd, 3rd and 4th years respectively. Despite the fact that the average duration of breakdowns was not recorded before 'Contracting Out' discussions with the in-house supervision team and the contractor revealed that based on their experience the average duration of breakdowns was much higher before 'Contracting Out'.

Table 10.10 shows the performance statistics for the RO Plant from which it can be elicited that the number of breakdowns of RO Plant (s) were less by 2%, 36%, 21% and 69% in the first, second, third and fourth years after 'Contracting Out'.

The duration of breakdowns averaged at 5.3, 9.76, 10 and 4 hours in the 1st,2nd, 3rd and 4th years respectively. Despite the fact that the average duration of breakdowns was not recorded before 'Contracting Out' discussions with the in-house supervision team and the contractor revealed that based on their experience the average duration of breakdown for the RO Plant was much higher before 'Contracting Out'.

Table 10.10 Performance statistics for RO Plant

	Before	Year 1	Year 2	Year 3	Year 4
No. of breakdowns (Plant Tripping)	42	41 (2% less)	27 (36%less)	33 (21% less)	13 (69% less)
Average duration of breakdowns	Not recorded	5.3 hours	9.76 hours	10 hours	4* hours

***Estimated**

The quality of service for the air-conditioning side of the operation was measured on a different basis to the above. Table 10.11 shows performance statistics for number of breakdowns, response time to emergencies, no. of major complaints by end users, and average duration of breakdown in minutes. In addition, interviews were held with end users, who constituted the focal point for client's repair demands (minor complaints).

Table 10.11 Performance statistics for Air-conditioning

	Before	Year 1	Year 2	Year 3	Year 4
No. of breakdowns	9	4 (56% less)	2 (78% less)	2 (78% less)	0
Average duration of breakdowns (minutes)	80	30 (63% less)	25 (69% less)	25 (69% less)	25 (69% less)
No. of major complaints by end user	4	3 (25% less)	0	0	0
Response time to emergencies (minutes)	Not reported	15	15	15	15

As can be seen from table 10.11 the number of breakdowns was reduced by 56% in the first year after 'Contracting Out', by 78% in both of the 2nd and 3rd years and with no breakdowns in the 4th year after 'Contracting Out'. The average time of repair was reduced by 63% in the 1st year followed by further reductions in the 2nd, 3rd and 4th years by 69% respectively. In addition, the number of major failures reported by the end user during their operations as a result of poor service provisions by the O & M contractor were less by 25% in the first year compared with those before 'Contracting Out' and were reduced to zero in the 2nd, 3rd and 4th years of operation.

As can also be seen from table 10.11, the response time to emergencies has not been recorded for the year that preceded 'Contracting Out', however, it became evident, during the interviews with the end users, that the response time to emergencies was quicker after 'Contracting Out' compared with that of before 'Contracting Out'.

Moreover, analysis of data collected on Repair Demands (minor complaints) for the air-conditioning section revealed that the number of pending RDs carried forward to the next month was drastically reduced after 'Contracting Out'.

The field research (interviews with end users) also revealed the following:

- The duration of breakdowns were less after 'Contracting Out'.
- The contractor has shown a high degree of co-operation with end users.
- The contractor was always available and attended with the manpower with the appropriate skills.

It is interesting to note that the perception of the supervision team members had changed over time. During the first visit their perception about "Contracting Out" the O & M services was not good, as the contractor had just taken over and they themselves were not fully conversant with managing the contract. Such perception changed drastically during the second year's visit as they came to realise the benefits of "Contracting Out" and the efficient operations of the contractor.

In summary, based on the evidence in this section it can be concluded that the quality of service has drastically improved after 'Contracting Out' the O & M services.

10.4.5 Effects on the Organisation's Existing Staff

One of the main perceived disadvantages of 'Contracting Out' projects, which opponents make an issue of, are the detrimental effects on existing affected staff.

The fourth element of the effectiveness evaluation is related to the extent of the side effects of 'Contracting Out' on the organisation's existing in-house staff who were executing the service before 'Contracting Out'.

In order to have a clear comprehension of the extent of this problem in the O & M project, a study of what exactly happened to the existing staff has been carried out.

Table 10.12 shows the number of staff that were carrying out the in-house O & M services before 'Contracting Out' and indicates what exactly happened to them after 'Contracting Out'.

Table 10.12 Case Study 2 In-house Staff Deployment after 'Contracting Out'

Category	Omanis	Expatriates	Total
Transferred to other locations within organisation	44 (13 sup.)	52	96
Retired	7	0	7
Contract Terminated	0	8	8
Total	**51**	**60**	**111**

Out of the total 111 manpower that were carrying the O & M services only 15 (13.5%) lost their jobs. 7 out of the 15 were Omanis that were retired and the remaining 8 (expatriates) had their contracts terminated as their services were no longer required. The 7 Omanis that were retired had reached their retirement age and were to be retired whether the O & M services were contracted out or not. However, they lost the opportunity of being retired under the new pension scheme which came to force in 2001. In addition, 2 out of the 8 expatriates joined the O & M contractor as the expatriates staff were given the chance to join the contractor, if they wished to do so, based on terms and conditions of the contractor. The project documentation showed that the remaining terminated 6 expatriates were overage or medically unfit.

The remaining 96 were retained by the organisation and transferred to other locations to fill vacant posts and to Omanise some posts occupied by expatriates. A review of the transfer locations revealed the following:

a) 20 staff i.e.45% of the 44 Omani staff were transferred to locations a considerable distance from their homes. However, it has been found that only 14 of these 20 staff Omani staff (27% of 51 total Omani staff) have been seriously affected. The remaining 6 were found to be unmarried youngsters and were provided with accommodation by the organisation, free of charge at the new location[1]. But it remains that such a transfer has certainly affected those staff both economically and socially. Socially as they are now away from their families and hence unable to look after their needs to the same extent. There is an economic disadvantage as they have to travel long distances and pay for accommodation while still incurring costs for their permanent home.

b) The remaining 52 expatriates were transferred to scattered locations within the organisation to fill the most pressing O & M vacancies. It was found that these expatriates were not really affected by such transfer as they had already left their families back home to work in Oman and that it made little difference as to which part of Oman they worked in.

[1]The organisation has a policy of providing certain lower grades staff with accommodation free of charge

10.4.6 Effectiveness Evaluation

This section is a summary of Case Study 2 effectiveness evaluation by applying the effectiveness framework formulated for this research. In addition, a comparison of the perceived advantages and disadvantages/risks with actual shall also be addressed in this section to highlight the overall effectiveness of the project.

To recap, the four essential elements of the effectiveness evaluation are as shown on Fig.10.14. Effectiveness is achieved if the project has resulted in cost savings, the efficiency element achieved, the quality of service has improved and the side effects on existing staff are minimal.

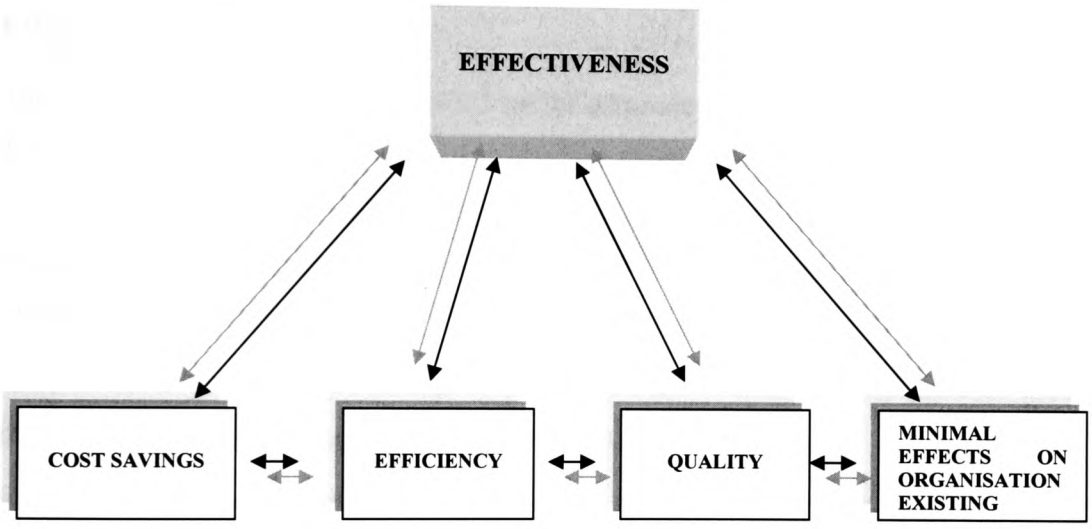

Fig 10.14 The Four Essential Elements For Effectiveness

Cost Savings Element

The cost comparison at section 10.4.2 revealed that the actual cost savings as a result of 'Contracting Out' the O & M services were found to be 11.75% compared with 18% anticipated by the feasibility study report, in the manpower and its associated costs. However, due to the efficient operations of the O & M contractor an additional cost saving of 7.75% was achieved by the organisation in other costs like spares, consumables, chemicals etc. that remained under the organisation's responsibility after 'Contracting Out'. Therefore, the actual cost savings to the organisation are 19.50%. The cost savings have been achieved in the following elements:

- Manpower and its associated costs.
- Spares, consumables, chemicals etc.
- Vehicles.
- Cost of hired labour.

The achieved cost saving is 1.50% greater than anticipated by the feasibility study report on which the decision to contract out the services was made.

Hence, it can be concluded that the cost saving element of the effectiveness evaluation has been achieved.

Efficiency Element

The comparison made at section 10.4.3 on the efficiency of the services before and after 'Contracting Out' revealed that the services are more efficient after 'Contracting Out'. The number of staff executing the services after 'Contracting Out' is only 59% of the total number of in-house staff before 'Contracting Out' while the productivity has been improved especially in power and water production sides of the O & M operations.

Coupled with the improvement in productivity there has been a reduction in cost of unit production compared with that before 'Contracting Out'.

Such efficiency has been found to be the result of the contractor working longer hours than the organisation in-house staff and their resources are used more efficiently.

Therefore, the efficiency element of the effectiveness evaluation has been achieved.

Quality of Service Element

The quality of the O & M services after 'Contracting Out' has improved drastically as has been found in the comparison made at section 10.4.4.

The number of breakdowns have been reduced in all areas of operations coupled with a reduction in average time duration of these breakdowns. The number of major complaints reported by the end-user has also reduced and the response time to emergencies is better.

Therefore, there is a clear evidence that the quality of service is better after 'Contracting Out'.

Minimal Side Effects on Existing Staff Element

A review of what exactly happened to the in-house staff after 'Contracting Out' at section 10.4.5 revealed that only 13.5% of the total manpower lost their jobs. 7 (6.3% of the 111 total number of existing staff) were Omani staff that have reached their retirement age and the remaining 8 were expatriates that were also found to be overage and 2 of them joined the O & M contractor. The only side effect on the retired Omani staff is that they lost the opportunity of being retired under the new pension scheme which is a lot better than the one they were retired under.

Out of the total number of Omani staff transferred only 27% has been affected as they were transferred to locations far from their homes.

Despite the fact that the existing staff have been affected by the move to a certain extent such affects can be considered to be minimal. Majority of the Omani staff that were affected by the transfer were promoted to offset the economical effect of the transfer. Considering the operational nature of the organisation, it is a condition of contract that its staff can be posted to any of its camps scattered around the country.

In summary the result of the effectiveness evaluation framework of this research shows that the O & M project (Case Study 2) has been effective in achieving the main objectives of 'Contracting Out'. Fig. 10.15 shows the result of the effectiveness evaluation in a diagrammatic format.

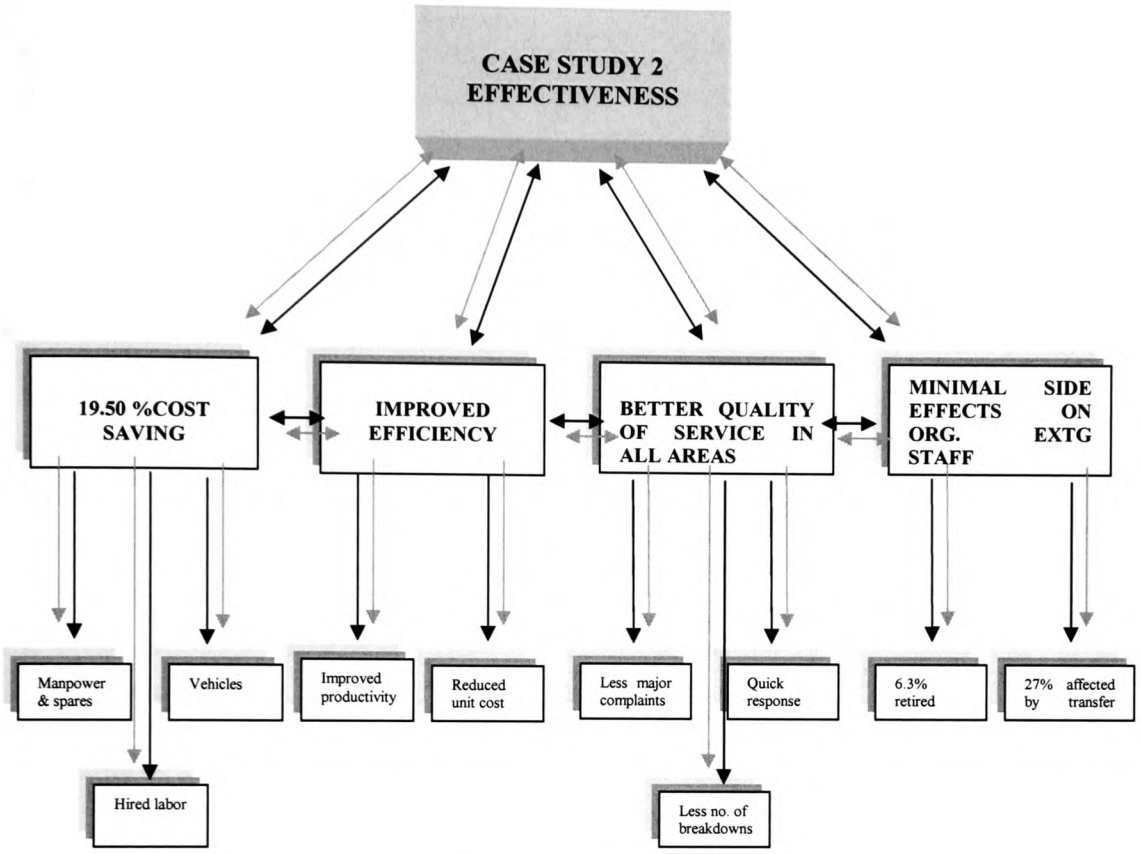

Fig.10.15 Case Study 2 Effectiveness Evaluation Results

Comparison of Perceived Advantages with Actual

In order to arrive at the overall effectiveness of the O & M project and in line with the requirements of the effectiveness framework the perceived advantages of 'Contracting Out' within the organisation, summarized at Chapter 7, were compared with actual results on the project as shown on table 10.13.

Table 10.13 Case Study 2 Comparison of Perceived Advantages with Actual

	PERCEIVED ADVANTAGES	ACTUAL
a.	Cost Savings in operating costs.	YES
b.	Increased productivity and efficiency	YES
c.	Better quality of service	YES
d.	Improvement in PPM	YES
e.	Reduced restricted practices	Yes
f.	One stop shop/single point responsibility	Not applicable as responsibility for spares was retained.
g.	Reduced management responsibilities	YES
h.	Benefit from specialist expertise and resources available in the private sector.	YES
i.	Better accountability	YES
j.	Less bureaucracy	YES
k.	Prolonged life of assets due to efficiency in O & M activities	YES
l.	Shrinkage of organisation size	Yes
m.	Transparency in organisation responsibilities	Yes
n.	More detailed cost breakdown	YES
o.	Better budgeting and improved planning	YES
p.	Problems of maintenance is transferred to a third party	YES
q.	Achieving Omanisation policy objectives.	NO
r.	More job opportunities for Omanis	NO

As can be seen from the above table 10.13, the O & M project has been successful in achieving its objectives in the majority apart from the Omanisation element where the research has revealed that the organisation's objectives have not been achieved.

Comparison of Perceived Disadvantages/Risks with Actual

Another comparison that was undertaken in line with the requirements of the evaluation framework was the examination of the main perceived disadvantages/risks summarized at Chapter 7 with actual results from the case study as shown in Table 10.14.

Table 10.14 Case Study 2 Comparison of Perceived disadvantages/risks with actual

	PERCEIVED RISK/DISADVANTAGE	ACTUAL
a.	Social side effects	Minimal
b.	Escalated service price at time of re-tendering	No. Contractor agreed to reduce the price at time of extension
c.	Resistance to change	Some normal resistance that did not affect project execution
d.	Security problems	On the low side
e.	Probability of use and discard concept with regard to the defective parts. Instead of repairing a particular part the contractor will tend to recommend replacement at the cost of the employer leading to more replacement of spares than repair.	No
f.	Risk of selecting poor contractor leading to total failure, bearing in mind you have already lost your in-house capabilities.	Has not taken place
g.	Risks at time of war as contractors staff (expatriates) might decide to leave the country (as happened during the first Gulf War).	Not experienced
h.	Problem of quality control if no proper supervision is exerted	NO
i.	End user's privacy might suffer.	Not reported
j.	Problem of supervision	YES
k.	Low Omanisation percentage and less training for Omanis	YES

As could be seen from table 10.14, the majority of the perceived disadvantages/risks have not been justified on the O & M project which shows the overall success of the project.

10.5 Project Overview

10.5.1 General

Having discussed the implementation problems of the O & M project in length at section 10.3 and its effectiveness at section 10.4 it is fair to provide an overview highlighting the main areas where the project has been successful and its shortfalls. The following sections provide details of the same.

10.5.2 Project Successes

Achievement of Objectives

One of the main successes of the O & M project is that it achieved the pre-'Contracting Out' objectives of cost savings, efficiency and better quality service set for it by the organisation. The majority of the perceived disadvantages have not taken place.

Top Management Commitment

The O & M project was the first 'Contracting Out' pilot scheme in the O & M services field which meant that the organisation's top management was committed to the project through out all stages. There were times when the project would have been shelved during feasibility study stage were it not for the intervention of top management with a solution proposal. Moreover, the project received the blessing of higher authorities responsible for the organisation which meant that the project was always monitored and there was an impetus to resolve any problems that were faced during execution. Such top management commitment and high level authority approval gave the project a major boost without which opposition against the move would have created some obstacles at the different stages of the project.

Flexibility and Co-operation from Both Parties

Flexibility was evidenced from both the company and organisation's supervision team. The O & M contractor has been very flexible in his operations. They have been very co-operative and the organisation's supervision team did not have any problem co-ordinating with them through out all stages of contract. The result was that no major disputes have arisen in the contract execution to date.

O & M Contractor's Experience

Tender selection process resulted in appointing a company well experienced in the O & M services field and their experience and well structured management system helped to overcome many transitional problems faced during the initial stages of contract. The

results have been a successful project and cost savings to the organisation in areas still under its responsibility.

Good Leadership to Supervision Team

The director overseeing the supervision team was well experienced in projects/contracts management and his experience helped in steering the project to success. It was evident during the documentation review that the project activities during mobilisation and execution stages are well documented which is believed to be the result of proper guidance from the said director.

Additional Benefits

The organisation has managed to accrue additional benefits from 'Contracting Out' the O & M services exemplified in the introduction of computerised Planned Preventative Maintenance programme together with the automated PPM Inventory and reports and the installation of quality management system which were not there before the contract. In addition, the organisation received very competitive offers from the O & M contractor for other works in the same camp which means that the organisation has gained additional economic benefits. The company was already on site and they were very familiar with the site and the facilities. The organisation's staff benefited from the health and safety training provided by the company on site.

10.5.3 Project Shortfalls

Lack of Clear Procedures

There has been no clear procedures for the different stages the project went through. This has been evident at both pre and post contract stages.

Omanisation

One of the main shortfalls of the O & M project is the fact that the project has proved not to be an encouraging start for Omanisation. The contract documents did not obligate

the contractor to provide Omanisation percentages on the project, and the contractor from his side no attempts were made to employ Omanis on the project facilities.

Contract Supervision

Contract supervision is another area where there has been a weakness on the project. The fact that no restructuring has taken place on the supervision team meant that the same team who was supervising the in-house services supervised the activities of the contractor after 'Contracting Out'. Due to that the supervision team had no similar experience before and was not qualified in contracts management some overlapping had taken place between the role of the organisation's supervision team and those of the contractor. Had it not being for the good leadership addressed at section 10.5.2 this problem would have surfaced and the project activities would have been affected.

CHAPTER 11

CASE STUDY 3: CONTRACTING OUT THE MAINTENANCE SERVICES OF BUIDLINGS AND CIVIL WORK (MSB&C)

Chapter 11

CASE STUDY 3: 'CONTRACTING OUT' MAINTENANCE SERVICES FOR BUILDING AND CIVIL WORKS (MSB&C)

11.0 Introduction

This chapter addresses the third case study for this thesis; the Maintenance Services for Building and Civil Works referred to in this research as MSB&C project. This project is the second major project, for which there was a comprehensive feasibility study, implemented under the umbrella of privatisation in the organisation after the O & M project at Case Study 2 of this research.

The structure of this case study will follow the same structure of Case Study 2 at Chapter 10 as can be seen in Fig. 11.1, however unlike Case Study 2 there will be no separate cost comparison of expenditure of spare parts and materials before and after 'Contracting Out' as the scope of the contractor involved the provision of materials and that no concern has been raised during field research over rising expenditure of these

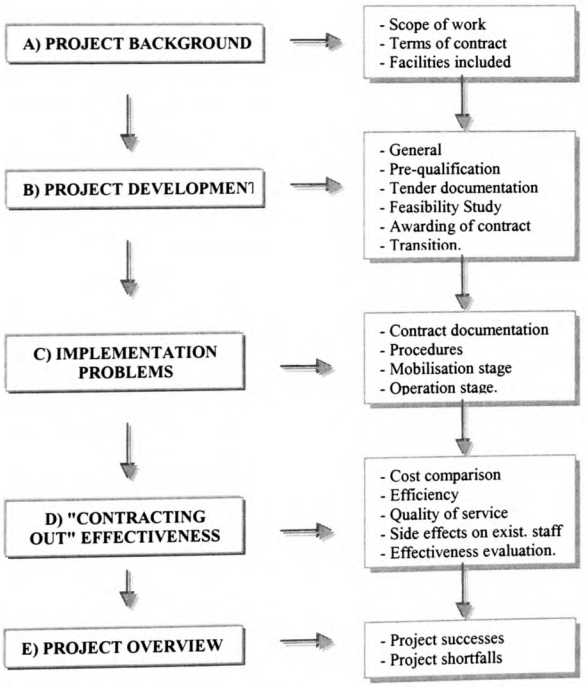

Figure 11.1 Case Study 3 Structure

The case study in this chapter is based on the findings from the documentation review; interviews with the organisation's supervision team, the end-users and the MSB&C contractor; comparison of performance data before and after "Contracting Out"; and observations made by the author.

11.1 Background

11.1.1 Scope of Work

The scope of works of the MSB&C project consists of more complicated maintenance services compared with that of the O & M project at Case Study 2. The maintenance services under the MSB&C project include the following:

- Maintenance services for building and civil works, comprising the routine preventive, corrective and breakdown maintenance including repairs and inspection of the building structures, facilities, equipment and infrastructures (Building fabric, building system, building components, road network system and paved and unpaved areas).
- The contractor to provide the management, staff and expertise to perform the maintenance services.
- The contractor to provide civil, electrical and public health materials excluding spare parts for air conditioners and other mechanical equipment, which shall be provided by the organisation.
- The contractor shall carry out the maintenance services in accordance to performance criteria set by the organisation in the contract documents.

11.1.2 Terms of the Contract

The major terms of the contract can be summarised as follows:

- A contract duration of 4 years with the provision for a one-year extension.
- A firm fixed price contract based on maintenance fixed fees and cost of materials supply.

- The maintenance contractor is required to administer, operate and maintain the facilities in accordance with the organisation's accepted practices.
- The maintenance contractor guarantees to carry out the maintenance services in accordance with the performance guarantees identified in the scope of works and conditions of contract.
- The maintenance contractor is fully responsible for providing all necessary staffing requirements for the contract execution and shall maintain 100% staff manning levels under each category of 108 minimum manpower requirement specified in the contract.
- Penalties for failure to timely maintain/repair any facility, service or equipment as per the requirements of the contract documents, and for not satisfying manning levels.
- An obligation on the contractor to provide Omani (local) labour out of the total manpower requirement ranging from 30% in the first year with an annual increase of 10% each year so that by the 4th year Omanisation target of 60% is achieved.

11.1.3 Facilities Included

The maintenance services are carried out on a major camp encompassing an area of approximately 814 Hectares (8.14 km2). The facilities to which the maintenance services are provided under the contract are as follows:

- Office buildings.
- Residential buildings (Junior/Senior single and married staff quarters).
- Workshop facilities.
- Institutional facilities.
- Medical facilities.
- Catering and laundry facilities.
- Storage facilities.
- Recreational facilities.

- Worship facilities.
- Camp Water Reservoir Storage Tanks, buildings overhead water tanks and Distribution Network and irrigation system.
- Drainage network and lifting stations.
- Open space, footpaths, road network facilities and street lights.
- Cold rooms and freezes.
- Buildings and other facilities air-conditioning and refrigeration equipment, including split A/C units, chilled water system, window A/C units, filters and control system components.

The total number of structures included in Case Study 3 is approximately 1700.

11.2 Project Development

11.2.1 General

This is the second major project the organisation decided to implement after 'Contracting Out' of O & M services project addressed in Case Study 2. Building upon the success of the project at Case Study 2 that was highlighted by the Ministry's Internal Audit review after one year of contract operation, the organisation embarked for the first time in the beginning of 2001 on assessing the feasibility of 'Contracting Out' the maintenance services that are the subject of this case study. The feasibility study indicated that it was a viable proposition to contract out the maintenance services.

The main aims of 'Contracting Out' the MSB&C works as stated in the Internal Audit report are:

a) To produce economic benefits by way of cost reductions.

b) To streamline the organisation and reduce the manpower aspects of the organisation.

c) To perform the specified works to the required standard.

d) To conform to current government policy and directives for encouraging private sector development.

Unlike the O & M project (Case Study 2), no tenderers pre-qualification was carried out for this project.

11.2.2 Documentation and Tendering

As with Case Study 2, the tender documents were assembled by the organisation's in-house team as no consultant was appointed for the project. The tender documents consisted of instructions to tenderers, form of tender, form of agreement, scope of work and conditions of contract. The contract was based on a schedule of prices comprising maintenance services fixed fees and the materials to be provided by the contractor. In addition, the tender documents comprised a schedule of rates for additional works and alterations beyond those specifically defined in the contract. The schedule comprises of unit rates that are intended to be used for costing additional works that may be ordered by the organisation from time to time during the contract period.

The tender documents required tenderers to submit two offers based on the following two options:

> Option I:
>
> For the provision of management, staff and expertise to carry out the maintenance services including the supply of civil, electrical and public health materials. Spare parts for air-conditioners and some other specifically stated equipment and mechanical spare parts to be provided by the organisation unless otherwise specifically called for by the scope of works.
>
> Option II
>
> For the provision of management, staff and expertise to carry out the maintenance services excluding the supply of civil, electrical and public health materials.

The project was floated in an open tender where the advertisement called for excellent grade[1] specialist contractors in the proposed maintenance services field.

A total of 14 companies applied for the tender documents but only 10 submitted offers. The initial tender submissions' analysis revealed that there was a major difference in

[1]This grading is dictated by the Government Tender Board, which grades contractors as excellent, grade 1, 2, 3 and 4 depending on the size and resources of the contractor.

price submitted by lowest tenderer and those of second and third lowest tenderers. In addition, there was also confusion over the contractor's scope, as far as responsibility for materials was concerned. This necessitated a clarification followed by a call for re-submission from all tenderers. The appraisal of the resubmissions revealed that there was still a problem with the lowest bid submission and that there were three companies deemed capable of executing the maintenance contract. As the appraisal progressed only two companies were preferred and who possessed the necessary capabilities and experience to undertake the contract and fulfil all technical requirements of the project. However, due to price difference between the two, negotiation took place with the second lowest company only. The major issue that occupied the negotiation process was the reduction in submitted price and fulfilment of new Omanisation requirements and the employment by the company of some of the organisation's Omani staff as a result of 'Contracting Out'. This is elaborated upon in section 11.2.4 *(Awarding of the Contract).*

11.2.3 Feasibility Study

The feasibility study for this project, as with Case Study 2, was mainly based on the comparison made between the in-house current operating costs and the bids received from contractors. The only difference between the two is that the current operating costs calculation was, this time, prepared by the organisation. This is in contrast with Case Study 2 where all calculations were done by the Ministry's Internal Audit Department.

The current operating costs were prepared with the aim of establishing whether 'Contracting Out' the proposed works would be a cost efficient option compared with the current use of the organisation's direct labour. The audit report produced target costs, which, when compared with contractor's submissions indicated that the project would be economically viable.

The comparison, referred to above, produced positive results in that the initial feasibility study report highlighted that an anticipated cost saving of 40% compared with the organisation's existing operating costs could be achieved. However, this was later on adjusted to 34% based on the findings of the initial feasibility study review by the author, as will be seen in section 11.4 *(Effectiveness of 'Contracting Out' MSB&C Services)* of this case study.

11.2.4 Awarding of the Contract

The organisation entered into a four-year contract, effective July 2002, with a local well-known company in the field of maintenance services that also possessed international support, as it was part of an international specialist group in the operation and maintenance field.

The contract was awarded based on option I discussed earlier in section 11.2.2 *(Documentation and Tendering)* where the contractor is responsible for the provision of manpower and materials excluding spare parts for air-conditioners which remained the responsibility of the organisation. This decision was made so that the contractor would have a single point responsibility, hence contractual disputes that might arise due to delay of material supply would be minimised.

The contract is projected to save the organisation the 34% mentioned earlier of its current operating costs over the 4 years contract duration, while improving the efficiency of the maintenance services and hence improving the quality of services provided to the end users.

Although the contract documents stipulated a minimum manpower of 108 staff the contractor included in his offer for a total number of 113 staff. However, the contractor provided more staff than this during contract execution stage in order to fulfil his contractual obligations.

As a result of the negotiation that took place at pre-award stage the contractor agreed to implement the new government requirements of providing 30% Omanis of the total labour force required for the project followed by an increase of 10% during the following years. Therefore, the total Omanis that would be employed on this contract at the end of the four years contract period would be 60%, a condition not included in the earlier O & M project (Case Study 2). In addition, the contractor agreed to take over the Omani surplus staff affected by 'Contracting Out' the maintenance services, based on terms and conditions set by the company. However, this did not materialise as the organisation decided to retain and redistribute all surplus staff to other locations within the organisation.

11.2.5 Transition

The letter of intent was issued in May 2002. The contractor started mobilising his staff to take over the facilities from the organisation in stages. In accordance with the contract documents the contractor was expected to take over the facilities and be fully operational on site by 1st of September 2002. However, due to the size of the camp on which the services were to be carried out the taking over had to be phased, which meant that the contractor was operational in some parts of the camp starting from 1st July 2002. (Further elaboration on this issue is addressed in section 11.3.3)

A joint inspection team was formed consisting of members from both the organisation and the contractor sides to hand over the facilities to the contractor. By the 1st of September 2002 the contractor had taken over all facilities and was fully operational on site.

During the mobilisation period contractor's staff were tested by the organisation to ensure that they satisfied the criteria of qualifications, experience and competency set in the contract documents. Some of contractor's proposed technicians/operators were rejected by the organisation as they did not satisfy the said criteria and hence the contractor replaced them.

Unlike Case Study 2 where contractor's staff were accommodated on campus, the MSB&C contractor's staff were accommodated outside the camp except for those required for emergencies and standby duties after working hours. These were provided with accommodation by the organisation, but at a charge.

11.3 Implementation Problems

11.3.1 Contract Documentation

General

The contract documents were prepared based on the already established contract documents for the O & M services but with the necessary amendments to reflect the maintenance of building services and civil work components of the operation. A Maintenance Director within the organisation that was asked by the organisation's C.E.O. to examine the tender documents (that formed the basis for the contract

documents after award) commented "*in my view, the overall tender documents have been well prepared and they are quite good*".

Quite few improvements were introduced to the contract documents of the MSB&C project based on the lessons learnt from the O & M contract documents however, few problems faced on the O & M project re-appeared in this project. Additional problems did subsequently arise due to the nature of maintenance services included under the MSB&C project.

The following sections highlight the problem areas in the contract documents for the project.

Minimum Manpower Requirement

The minimum manpower requirement set in the contract documents was not sufficient on this project. The contractor had to bring in more staff to site in order to fulfil his obligations. Unsuccessful tender offers were also based on a higher manpower level than that set by the organisation.

Penalties and Incentives Clauses

Again as with Case Study 2, the Form of Agreement concentrated on the different penalties imposed on the contractor in cases of failure to comply with terms of the contract. Analysis of some of the penalties set for certain delays/defaults resulted in these penalties are considered by the organisation's supervision team and the contractor to be very harsh on the contractor and would definitely act as a deterrent to the contractor for defaulting. In addition, the time allowed for attending some repairs is also believed by respondents to be tight (demanding). On the other hand, no considerations were given to incentive clauses for improvements from the side of the contractor, for example in the method of maintenance services or in the efficient utilisation of spare parts that are still provided by the organisation.

Insurance Cover

On similar grounds to Case Study 2 the conditions of contract clauses obliged the contractor to have insurance cover for an extended period of 6 months after the expiry of the contract. The same was also applicable to the Performance Bond. While such a requirement was seen as a shortfall in the O & M contract and was not serving any purpose apart from increasing the burden on the contractor and inflating the project cost, an in-depth analysis of the MSB&C contract documents revealed that such a requirement was important especially for Minor Works (MNWs) that the contractor might be ordered to do from time to time. Such work has a six months defects liability period, and may be instructed near the end of the contract.

Vagueness of Scope of Work

Areas of contractual ambiguity in the scope of work of the O & M project were avoided in this project's contract documents by making sufficient provisions for all perceived eventualities in the scope of work. However, the scope of work did overlook some issues in relation to clarifying the contractor's responsibility over replacement of certain materials. Despite the fact that tenderers' queries over these issues were clarified during tender period, it still created ambiguities in the tender submissions, which made tender appraisal difficult. In order to resolve this problem approval was sought from Tender Committee to ask tenderers to re-submit new offers based on clarified scope of works. In retrospect, time should have been allocated to refine the scope of work before project was floated for tender.

A Senior Contract Supervisor being asked about the comprehensiveness of the contract documents said *"the contract documents are quite comprehensive however there are grey areas in the scope of work, especially to do with quantities of some items and cut off point between contractor's responsibility as routine maintenance and additional work"*.

Moreover, the contract documents did include some schedule of rates for additional works/services beyond the scope of specified works, as discussed earlier in section 11.2.2. It was found during research that according to a Contract Supervisor *"such schedules caused confusion during execution stage"*. This confusion during contract operation resulted in those schedules not being followed by the parties, in many

instances. Some of the unit rates given by the contractor were extravagant and were not accepted by the organisation's supervision team. The contract terms state that the organisation is not obliged to accept those rates which it beliefs to be high.

11.3.2 Procedures

General

Despite the fact that the O & M project established certain 'Contracting Out' procedures within the organisation and that the lessons learnt from the O & M project have helped to improve some of the 'Contracting Out' projects procedures within the organisation, certain implementation problems could still be seen in the different stages of the MSB&C project. The following paragraphs provide an account of these through both pre and post contract stages.

Pre-tender

A review of pre-tender documentation available on the project supported by author's observations and interviews with the supervision team revealed that there was still lack of awareness by some people within the organisation on the motivating reasons for the organisation embarking on a 'Contracting Out' process for transferring the MSB&C services to the private sector. A Contract Supervisor stated *"we have not been informed officially why the organisation is 'Contracting Out' but we heard the parties concerned saying that we have financial difficulties therefore we have to find ways of saving money"*. This meant that concerned staff were not directly involved in the initial stages of the process and that there were no guidelines published on the stages that the project will go through. However, unlike the O & M project, in this project the concerned staff were more involved in the preparation of scope of work but it seems there was no proper co-operation/co-ordination between them and the department, responsible for assembling the scope of work. A Senior Contract Supervisor stated *"I was involved from the outset however; information for inclusion in scope of work was sought directly from in-house work supervisors (junior staff)"*. Lack of such co-operation/co-ordination meant that there was no proper study of what activities the in-house team were undertaking on the MSB&C services prior to preparation of scope of work. This in turn also led to some confusion during the initial stages of the contract on the part of

contractor's scope as to some maintenance responsibilities of the contractor. Some confusion over the supply of materials, and hand over of certain facilities by the organisation to the maintenance contractor was also in evidence during the initial stages.

It was also found during field research that some of the concerned people were not aware of the full scope of the initiative until a very advanced stage of the project.

Based on the author's observations, there was a lack of understanding by the present in-house team on what 'Contracting Out' was all about and what were the duties of the contractor at 'take over' of the facilities. This could be seen in the persistent requests for a large number of supervision staff by the organisation's supervision team to monitoring contractor's activities post contract award. There was a lack of understanding of a change in role from supervising in-house staff for all day to day operations, to that of monitoring the contractor's performance in meeting contract demands.

Moreover, interviews revealed that the fate of staff carrying the MSB&C activities in-house was also not made transparent until after the decision to award had been made. According to one respondent *"affected staff came to know in the final stage only, and they got to know through rumours before that"*. Hence, there was anxiety amongst affected staff concerning what might happen to them after the MSB&C services were moved to the private contractor. However, some improvement was noticed compared with the O & M project in that some open discussions were held with affected staff, after contract was awarded. Although, this was late notice, some of the affected staff had a chance to refuse their proposed deployment.

Feasibility Study

The feasibility study for this project was based on a comparison of current operating costs with the most realistic submitted tender figure, as discussed earlier, but the operating costs were prepared by the organisation's in-house team not the Ministry's Internal Auditors as in the O & M project.

A review of the initial feasibility study report revealed that the calculation of current operating costs was not based on accurate information as to the number of in-house staff carrying the MSB&C services and the amount of plant/equipment and vehicles that would become surplus once the services are contracted out. As far as manpower is concerned some staff belonging to other locations, associated with the affected unit,

were wrongly included in the current operating cost study. The same could be said about plant equipment and vehicles (refer to section 11.4.1 *Cost Comparison*)

Despite the fact that some of these discrepancies were overcome during the review carried out by the author of this dissertation in conjunction with the CEO office of the initial feasibility study, certain shortcomings were still evident during the research for this study. A noticeable shortcoming is the fact that the cost savings anticipated by the feasibility study were based on the premise that, the contractor would supply all civil, electrical and mechanical materials. However, it has been observed that some replacement materials including the supply of some chemicals and electrical fittings remained under the responsibility of the organisation. In addition, the expenditure of materials contained within the feasibility study report was based on the budget allocation instead of actual expenditure. Bearing in mind that the affected unit had never kept its expenditure on materials within the allocated budget means that the actual cost savings in this regards were not correct and needed some subsequent adjustment.

A further oversight was that the anticipated cost savings did not take into account the cost of the organisation's supervision (monitoring) team after the contract was awarded. One of the existing supervision team members that were accounted as surplus in the study were retained for supervision. This means that the anticipated cost savings calculation was not accurate. On the credit side, the remaining number of existing supervision team members that were not earmarked as surplus in the study were used for contract supervision, which offsets some of the anticipated loss in cost savings from those retained.

Despite the above identified deficiencies, the structure of the feasibility study report used as a basis on which a high level decision was made for the project to go ahead, has been improved compared with that of the O & M project. It contained detailed information on stages of the study and results. It also provided detailed account of the present in-house manpower and what was proposed to happen to them.

Tendering

The tendering procedures for the MSB&C project were similar to those followed on the O & M project. There was no pre-qualification of tenderers and the project was floated in an open tender resulting in 14 companies submitting bids. Based on observation, a

major problem faced at this stage, was that the lowest bid was submitted by an inexperienced contractor in the field who had submitted an offer almost 60% cheaper than the second lowest tender which was a more realistic tender figure. Disqualification of this tenderer proved to be difficult, with the tender evaluation team having to justify the case to the very senior members of the Tender (awarding) Committee.

Moreover, and as with the O & M project one of the main problems found at this stage was that the tender did not include any information on tender evaluation criteria that will be used to assess submitted tenders. The contractor's Project Manager being asked about tender evaluation criteria stated *"a clearly defined tender assessment/evaluation criterion, I believe, is imperative to ensure justice, especially in cases where there has been no technical pre-qualification procedure".*

A noticeable issue at this stage of the project is that, unlike in the O & M project, the concerned department overseeing the in-house services were not involved in the technical evaluation of submitted bids. Research into this revealed that the concerned department did not want to be involved in this as they were not fully involved in the initial drafting of the scope of work and that they did not want to take responsibility for something they felt was a sensitive issue. It has also been found that one of the reasons for lack of involvement was limited capability and experience of carrying out such an evaluation, having never been involved with such a process before

A short list of tenderers, after tender opening, was not announced which meant that contractors' position who's bid had been rejected early in the process were not informed and were thus handicapped in the preparation of other tenders concurrently being worked on. In addition, tender bonds were kept renewed for quite a long period of time resulting in additional burden on participating tenderers. The MSB&C contractor confirmed that these two issues did have negative effects.

Contract Formulation/Awarding

A major problem during this stage was the delay in making the decision on awarding the contract. An examination of data collected for the case study revealed that it took one and a half years from advertisement of tender until the project was finally awarded. Research into what exactly happened during that period revealed that considerable time was spent on assessing whether the project was viable or not and in finalising the

manpower deployment aspects of the affected unit. Table 11.1 explains the different pre contract activities the project went through up to award with the corresponding dates stated against each activity.

Table 11.1 Case Study 3 Pre Contract Stage Activities

Date	Activity
20 Nov. 2000	High authority approval to study the possibility of "Contracting Out"
Jan-Feb 2001	Preparation of tender documents.
12 Mar. 2001	Advertisement of tender.
20 June 2001	In-house current operating costs calculation report.
25 June 2001	Original tender submissions.
01 Sept 2001	Initial technical evaluation.
08 Oct. 2001	Revised tender submissions.
Dec. 2001	Technical evaluation finalised.
26 Jan. 2002	Feasibility study report preparation.
10 Mar.2002	High authority approval to proceed with project.
11Mar. 2002	Tender report finalisation and submission to tender committee.
April 2002	Negotiation with preferred bidders.
19 May 2002	Issuing of Letter of intent.
14 Sept.2002	Issuing of Letter of Award.

In addition to the long period of time taken to assess the viability of the project (from date of current operating cost calculation up to feasibility study time), the extended time spent on tender submissions evaluation is considered to be one of the reasons for delay in awarding. This delay was primarily the result of lack of pre-set, well-defined criteria for the tender evaluation process in the tender documents and the lack of involvement of concerned parties in the evaluation process.

One of the major obstacles in the initial stages of this project compared with the O & M project was the large number of Omani staff that made up the in-house team (70% of total manpower). This was one of the main reasons behind the delay in awarding the contract as the organisation felt a social obligation in securing these Omanis their future jobs once the maintenance services are contracted out. Research revealed that as the majority of them were not of retirement age, it took time to relocate them to other suitable /productive posts within the organisation.

Another cause of delay of awarding the contract was the negotiation process, especially over the new Omanisation regulations discussed in section 11.2.4 that had come into effect subsequent to the receipt of the tender submissions. It took a while to convince the successful contractor to accept such a regulation without any cost implications. The contractor's Project Manager confirmed the reason for such an initial reluctance, during the interview, by saying *"introduction of the new Omanisation percentages after having negotiated and frozen the final Contract Value did necessarily cause unfair anguish for us"*.

According to the contractor, the delay in award resulted in difficulty in arranging the necessary staff for the job. The Maintenance Manager stated *'majority of our expatriate staff, that were made redundant on an expired contract, were ready to take over the job on this contract, but had to be sent home as it was no longer economical for us to retain them. We were unsure by then, if we were getting the job"*. The Project Manager also added *"the one year delay caused considerable monitory damage to us due to the idle man power we retained for the initial 3 months in anticipation of the project. Thereafter we retrenched them"*.

Moreover, it has been observed that in the MSB&C project the delay in awarding led to reluctance on the part of some tenderers to renew the tender bonds and revalidate their tender prices. One tenderer requested a 10% increase to his original price on 3rd extension. Also, negotiation was difficult with the preferred contractor as by then they knew their position and had the upper hand in maintaining their submitted price, arguing that they had already lost financing charges on tender bond renewals and in the revalidation of their original tender.

11.3.3 Mobilisation Stage

General

No difficulties were encountered at this stage as far as the procedures for joint inspection and handing over the facilities to the successful company were concerned. However, due to the nature of the services and the facilities included in this project, a few difficulties were encountered during this stage.

Mobilisation Period

One of the major difficulties encountered at mobilisation was the compliance with the mobilisation period stipulated in the contract documents resulting from provisions of the take-over/mobilisation clause not being clearly defined. The particular clause stated that the contractor was required to be fully mobilised to site within 30 days from the take over date stipulated by the organisation.

The same mobilisation and take over clauses after the O & M project were used for the MSB&C project. Difficulties in implementation occurred in the MSB&C project, as the facilities in this case were more complex in nature. In addition, the facilities were scattered over a large camp of 814 Hectares (i.e. 8.14 km2). This project contained different types of facilities ranging from office buildings to workshop facilities and water and sewage networks on a very old camp dating back to the early 1970s compared with that of the newer O & M project built in the mid 1980s. Moreover, the number of staff that had to be mobilised to site by the contractor was double that required for the O & M project as were the number of the organisation's affected in-house staff that had to be relocated to their new positions.

All of these factors meant that the 30 days mobilisation period was insufficient for the MSB&C contractor to take over all the facilities at one stage. As a result a decision had to be made by the organisation's senior authorities to hand over the facilities in phases over a period of 3 months to the successful contractor after issuing the Letter of Intent. Something the contract documents did not allow for. The contractor's Maintenance Manager being asked about the 30 days mobilisation stated *"no it was not sufficient. Had the organisation not decided to phase it we would have faced a major problem"*.

Although such an action received the contractor's approval, it did generate cost implications. The successful contractor claimed payments for the two months that proceeded the actual start date, which was accepted as valid. The author had to make certain corrective actions to the form of agreement articles to allow for such payments without affecting the overall contract value.

Selection and Assessment of Contractor's Staff

Selection and assessment of contractor's staff also caused a problem on this project as in Case Study 2. There were no written guidelines or procedures for selection or how

the interviews ought to be carried out. It became apparent during the interviews stage that the organisation's supervision team members had a problem as they had no previous experience or knowledge of this process. One Contract Supervisor stated *"yes we had a problem with this as there were no written procedures and that the required standard (i.e. qualifications etc.) for trades men was not provided by the concerned department"*. The fact that the contract documents did not provide any guidelines on this was a recognised deficiency.

A further problem faced by the supervision team during selection of contractor's staff was that they found it difficult to find competent staff and engineers amongst the CVs proposed by the contractor. One respondent put the percentage of rejected staff during selection at 20% and stated *"although the CVs showed that the particular staff were good they failed when they did the work on site"*. Also, some of the selected staff were found incompetent and had to be removed from site. It became very evident during documentation review and field research that the contractor was having difficulty providing the required quality staff for the job. This led to staff being brought to site that did not know each other, lacked the required experience and hence, were unsure about their responsibilities. This management and co-ordination problem, coupled with the difficulty the organisation's supervision team was having, as will be seen in section 11.3.4, led to problems during this stage, including poor response and difficulty of establishing proper communication channels with contractor's staff during the initial stages of the contract.

Security Gate Passes Delay

The problem of delay in getting necessary security gate passes for contractor's staff also recurred. The main reason for this, based on observation, was that the concerned departments were not brought in at the right time and were not introduced to the requirements of the project from security point of view sufficiently well in advance. This of course is in addition to the large number of gate passes to be processed and that the security requirements were tighter on the subject camp, being the main camp for the Ministry. This was made worse in the tightening of security after the 11th of September 2001 events.

MSB&C Contractor's Re-organisation Post Tender Award

After the Letter of Intent had been issued and serious discussions started taking place about the mobilisation and taking over in stages by the contractor, the contractor informed the organisation's senior authorities that the company was undergoing an organisational re-structuring. The organizational restructuring therefore resulted in the company's management being transferred from Oman to the same company's international office in Dubai.

This news created an initial shock and unease to the organisation and led to suspending some of the handing over activities for 2 weeks until the organisation was officially notified of the company's status and that assurances were given that such a re-organisation was not going to affect the contract in hand.

It is the author's experience that such a re-organisation did affect the company's performance on this contract as could be seen from the difficulties the company experienced during the initial stages of the contract.

Quality of Contractor's Staff

Research revealed that the contractor initially had a problem arranging necessary staff for the job, especially the supervisory staff. Although the contractor has argued that the delay in project award played a role, as they have sent back the staff they had ready to take over the contract, documentation review followed by interviews with the supervision team and end-users revealed that the quality of some staff the contractor initially brought to site was not good. Post contract documentation showed that almost one year into the contract the competency of some of contractor's engineers and supervisors was questioned.

This problem caused some delays during the mobilisation period and the communication between contractor's staff and the organisation's supervision team was found to be poor due to the contractor's staff lack of understanding of their responsibilities and the scope of work for the project.

11.3.4 Operation Stage

General

Research into this stage revealed that there were few implementation difficulties/problems encountered during the operation stage however, one of the main problems during the initial stages of contract operation, including the mobilisation stage, was related to contract supervision. The following sections describe these difficulties in some detail.

Contract Supervision

Despite the fact that some organisational re-structuring of the affected unit resulted from the 'Contracting Out' process, certain issues relating to the supervision team were still not fully addressed.

The same team that was supervising the in-house services before 'Contracting Out' was appointed to supervise and monitor the MSB&C contractor's activities under the project. This decision was based on the fact that the affected camp was established in the early 1970s and encompassed old buildings, with no comprehensive details on the underground services. The existing team was very familiar with the infrastructure and operations of the camp, maintaining good relations with the varied end users. It was believed at that stage that if a new team was appointed to supervise the contract, this expertise would be lost and problems might arise during the handing over to the contractor. However, it became very evident during the mobilisation stage that such a team was not familiar with maintenance contracts and their management processes. This was exacerbated by the fact that neither guidelines nor procedures were prepared for the supervision team to assist them with their supervision and monitoring duties. This weakness did undermine their operational interaction with the contractor. Despite the fact they received some support for a limited period of time from experienced staff from within the organisation they continued to experience difficulties managing the contract. This was manifested by the many queries raised by them and the disputes they had with the contractor.

Another problem relating to the supervision team was that the supervising party for the air-conditioning side of the maintenance activities was not part of the supervision team but a separate entity. This issue created some co-ordination problems for the supervision

team and resulted in some delays to the activities of the MSB&C contractor and delays in spare parts supply to the contractor, thus leading to increased bureaucracy in the maintenance activities. The result of this could be seen in the high number of complaints received in relation to air-conditioning due to this problem, which was also confirmed during quality of service interviews with end users.

The number of the organisation's contract supervisors was found to be insufficient for the civil side of the maintenance services, which formed the majority of the services contracted out. The Senior Contract Supervisor stated *"in addition to the normal duties of monitoring contractor's activities we are also still responsible for issuing excavation permits for new projects on camp, preparation of scope of work for and overlooking minor works executed by the contractor and co-ordination with varied end-users on the camp".*

None of the supervision team members had the knowledge or experience with managing/monitoring private contractor's activities, and operated to the (now superseded) public sector systems of running these activities. Due to their lack of awareness of contractual management issues, they had difficulty reading, understanding and interpreting the contract documents. The situation was made worse because there were no job descriptions provided for the supervision team. As a Contract Supervisor puts it *"we had a problem initially in supervising contractor's activities as we had no job descriptions and that we were new to contracts management".* Also, no monitoring procedures to help these supervisors were put in place, apart from the different reports the contractor had to submit in line with the contract documents requirements. Research revealed that monitoring procedures entailing daily/weekly/monthly etc reports included in the contract documents, although initially considered to be adequate, proved not to be so, and the organisation's supervision team had to devise additional aids to closely monitor the activities of the contractor.

Contractual Disputes

Scope of materials supply

major problem during the operation stage was the vagueness of the extent of ntractor's obligations as far as quantities of work and materials supply are concerned. assessment of the scope of work on the contractor's responsibility of materials

supply for some items revealed some ambiguities. It has also been found that the MSB&C contractor did not clarify some of these items during tender stage, which may have been by oversight or to gain commercial advantage. The weakness of supervision team in contractual management identified above made this situation worse.

One of the disputed items quickly surfaced during the mobilisation period, however, the author was consulted on that particular item and it was found that the scope of work had mistakenly allowed for such items to be still supplied by the organisation. Few other problems with scope of materials surfaced during the operation stage and led to several disputes between the supervision team and the contractor.

The above problems were found during the review of project's post contract documentation by the author, having been approached by both the in-house supervision team and the contractor to clarify certain issues in this regard. Every supervisor confirmed during interviews that this problem has caused them a difficulty during the initial stages of the contract. A Contract Supervisor stated *"grey areas in the scope of work have made our role difficult especially during the initial stages of contract"*. It became apparent during field research and observation that some of the disputed items had led to delays in executing some of the maintenance work.

Requirements of Computerised PPM Programme

There was a dispute during the operation stage in relation to the computer programme the contractor had to provide for the Planned Preventive Maintenance. The tender documents left a scope for different type of tender submissions without specifying the computerisation requirements or preparation of specimen output formats. Despite the fact that such a requirement was the subject of post tender clarifications, the submitted programme did not receive acceptance. The contractor submitted the most expensive software in the belief that it satisfied the requirements but their submission was rejected as it lacked the graphical representation the organisation was after. The contractor made several attempts to meet such a graphical requirement but he was only successful in meeting the requirements after one year from contract start date. According to the contractor's Project Manager the graphical representation *"remained obscure without any specification being issued by the organisation"*. He further stated *"our company*

went through the laborious exercise of conceptual development, repeated demonstrations, revisions and re-revisions until a general acceptance was achieved".

Resistance to Change

Research revealed that the problem of resistance to change took place in the MSB&C project initially; however, it did not severely affect the activities of the contractor. The following highlights how this resistance was manifested in this case.

Interviews with the supervision team members revealed that there was a problem initially. A Contract Supervisor describing such resistance stated *"there was some resistance initially from in-house staff in the form of lack of co-operation during hand over as they were wondering why the organisation wanted to contract out the services".* Other supervision team members also confirmed the same. Moreover, A Senior Contract Supervisor also indicated that some resistance was initially noticed from end-users during handing over as they were not used to dealing with contractors and that *"the organisation was providing them with additional services for free but now they have to pay for it from their own budgets".*

This point was also discussed with the contractor's Maintenance Manager who stated *"yes there was some resistance from some of the organisation's work supervisors and technicians to give full information about the facilities and some were hiding pending repair demands due to the risk of losing their job or being transferred to other locations. In addition, others were scaring our staff, by saying, "this is a military camp and you will have a lot of problems working on it", etc. Moreover, some staff were taking photographs of incomplete jobs and presenting them to a high authority to show our incapability".*

It is the author's experience that the existing management tried to retain some of the displaced staff that had been accounted as cost savings on the same facilities, therefore rendering false cost savings of the project.

Contractor's Performance

Post contract documentation review and field research, including observations, revealed that the contractor was having a problem with the high number of pending repair

demands (minor maintenance requests) during the initial few months and continuing through the remaining part of the first year. The issue was closely examined and the following was found to have played a role:

- The quality of some supervisors and maintenance staff contractor initially brought to site played a major role as they lacked the necessary experience in maintenance work.

- According to the contractor some repair demands that were supposed to be completed by the time the contractor had taken over were re-produced for contractor's action.

- The learning curve for the contractor in getting to know the procedures and to become familiar with the facilities and the different locations where the maintenance work was to be carried out.

- The dispute over the supply of materials in some instances.

- The contractor was initially using his maintenance staff to carry out some minor additional works requested by the organisation from time to time.

The contractor has also stated that the time in getting spare parts from the organisation, which are still under responsibility of the organisation, caused delays. In addition, they stated that there was a delay initially in executing the maintenance work due to having difficulty gaining access to some facilities. In this regard the contractor's Maintenance Manager stated *"one of the difficulties we have been facing is that when we attend calls some times the end user either is not there or the time is not suitable for him.... Moreover, due to the nature of the organisation's working hours (from 07.30 – 14.00 hours only) there are places where access cannot be gained after working hours and have to be delayed to next day which means that our operations are affected".*

The contractor's Project Manager also added the following other contributory factors:

- *Natural resistance from those organisation's employees who feared transfer or termination.*
- *Repair Demands invigorated by the news of a contractor having stepped in.*
- *Belated receipt of RDs: It is yet a practice in certain end users offices to wait until the RDs accumulate to a minimum number before delivery to the contractor office at site.*

As mentioned, there were some complaints from some end users on the performance of the contractor during the first year. However, research into such complaints revealed that the complaints were mainly on the air-conditioning side. Discussion with supervision team members revealed that incompetency of some of contractor's staff played a role. It was also found that there was a lack of understanding from end users side on the responsibilities of the contractor hence some of the complaints were unsoundly based resulting from unrealistic demands. The contractor's Maintenance Manager, being asked about the complaints on the air-conditioning side stated "*as to domestic air-conditioners there was a problem. There is a large number of window air-conditioners installed on the camp (more than 10,000). If one air-conditioner is not cooling in a barrack accommodating 20 soldiers, 20 people will complain*"

However, the contractor's performance overall improved, once their staff were familiar with the site and the facilities involved, as was found during interviews with the supervision team and end-users.

11.4 Effectiveness of 'Contracting Out' MSB&C Services

11.4.1 Cost Comparison

General

Using the effectiveness evaluation developed for this study, a cost comparison pre and post 'Contracting Out' was carried out for the MSB&C project. The comparison involved the calculation of operating costs pre-'Contracting Out' and actual costs after 'Contracting Out' following the cost comparison flow diagram described in Chapter 4. However, before such a comparison could be made, and on similar basis to Case Study 2, an examination of the feasibility study for the project was carried out to arrive at the basis of such study, paving the way for making necessary adjustments based on the findings of documentation review and field research to establish the pre-'Contracting Out' baseline.

The comparison in this section is based on changes relative to a pre-'Contracting Out' baseline. The overriding aim has been to determine whether the anticipated cost savings, incorporating appropriate adjustments, were achieved after 'Contracting Out' or not. The following sections consider this issue in some detail.

Feasibility Study Calculations Review

As stated earlier in section 11.3.2 the feasibility study was based on a comparison of current in-house operating costs with the most realistic submitted tender figure. A review of the in-house operating cost calculation for the MSB&C services revealed that they were based on the following cost elements:

a) Direct and indirect manpower costs

A total of 233 in-house staff were carrying out the MSB&C services before 'Contracting Out'. 72% of them were Omanis and the remaining 28% were expatriates from the Indian Subcontinent.

The direct manpower costs were mainly made up of capitation rates; and shift and overtime allowances that were paid to the above staff. The indirect manpower costs were said to be not easily quantifiable and included items such as staff accommodation, utilities, medical facilities and catering subsidies. The said operating costs calculation allowed for 10% as an annual overhead percentage to cover such an indirect costs. (Note: this is different to the method used for the O & M project where each of these elements had a figure established against it, however, a comparison between the two methods was carried out, which indicated that the resultant figure would be same).

b) Other costs

Other costs that made the operating costs referred to above included hired labour (part time staff[2]) used for routine maintenance; money paid for painting contract that will not be required any more; cost of civil, electrical and public health materials; renewal and running costs of vehicles and plant equipment.

The initial feasibility study report, comparing the current operating costs with the most realistic tender figure, concluded that the project was economically viable. The report highlighted that 'Contracting Out' the MSB&C services to the private sector will result

[2]Additional temporary contract staff hired from time to time to fill in shortage of manpower in the organisation's operation and maintenance departments.

in an anticipated cost saving of 40% compared with the organisation's current operating costs. The 40% savings were based on the following:

- None of the 223 staff included in the operating cost calculation would be required for the MSB&C after 'Contracting Out'. Majority of the Omanis (76%) were to be transferred to other productive posts within the organisation and the remaining (24%) were to be retired. All of the expatriate staff were to be made redundant (terminated).
- The hired labour and painting contract will not be required anymore and will add up into the cost savings.
- The present budget allocation for materials will be saved as a result.
- 30 vehicles and 11 items of plant equipment will not be required anymore. The cost savings were calculated on the basis that the organisation would benefit by the capital and recurrent costs of running these vehicles and plant equipment.

Having been involved in all 'Contracting Out' projects within the organisation, the author of this dissertation was tasked by the organisation's Chief Executive Officer to scrutinise the above initial feasibility study. This task has enabled the author to gain an insight into the project and meet the requirements of the research methodology. This study resulted in the following findings:

- The affected number of staff that ought to have made up the manpower cost savings was not 223 but 204 (76% Omanis & 24% expatriates). The 19 difference were still required to be retained as some services would continue to be carried out by the organisation even after 'Contracting Out'.
- Not all of the materials budget allocation will be saved after 'Contracting Out'. Certain part of it would still be spent on materials needed for the maintenance of specific facilities that would still be retained after 'Contracting Out'.

Pre-'Contracting Out' Baseline

In light of the above finding, the operating costs pre-'Contracting Out' were calculated by developing MS Excel sheets. The new operating cost figure is used to provide a more realistic baseline for the cost comparison in this case study.

Based on the baseline calculation the anticipated cost savings pre-'Contracting Out' that made up the revised feasibility study were found to be 34% and not 40% as anticipated by the initial feasibility study. The final feasibility study report and the decision to award the contract were based on this percentage of cost savings.

Cost Savings Post 'Contracting Out'

On a similar basis to Case Study 2 a review of what has happened at time of handing over the facilities to the MSB&C contractor was carried out. Again the aim of this was to re-check the correctness of the data incorporated in the feasibility study so that necessary adjustments could be made to the pre-'Contracting Out' baseline. The following sections elaborate more on this.

As stated above the anticipated cost savings pre-'Contracting Out' of 34% calculated before 'Contracting Out', were based on all the 204 staff becoming surplus and be either utilised by the organisation in productive posts in other locations of the organisation, or made redundant. In addition, all of the 30 vehicles and 11 items of plant equipment that were used by the MSB&C staff would become surplus and would be transferred to other locations within the organisation. Also, the cost savings resulting from materials expenditures have been based on the budget allocation.

Examination of the feasibility study report and the data collected for the purpose of this research on proposed manpower and vehicles/plant equipment deployment after the MSB&C services were handed over to the successful contractor revealed the following:

- The number of staff that was carrying out the MSB&C services was 201 and not 204 as used in the feasibility study report. The 3 difference were wrongly included in the study as they were assigned to other location. In addition, there was 10 staff that were retained for the purpose of future Omanisation (i.e. supernumerary). These 10 staff cannot be treated as surplus. Hence, out of the 204 staff 191 staff can be treated as surplus and would make up the manpower cost saving.
- The cost saving on materials contained in the feasibility study report was based on the budget allocation for materials. Using the budget allocation did not reflect actual expenditure on materials, as the affected unit never limited

its expenditure within the budget allocation (as was found during documentation review and field research).

- The more realistic tender figure on which the feasibility study was based was inflated by 10%. This was a wise action to make for two reasons. The first reason was because the exact contract value was not known when the feasibility study report was finalised. The second reason, was because the said 10% inflation was allowed as a contingency for unforeseen elements of scope that were not included in the contract documents, this was desirable as the type and complexities of maintenance services in this case were being contracted out for the first time. However, in order to arrive at the actual cost savings of the project the actual accepted contract value has to be eventually used.
- Not all the 30 vehicles and 11 items of plant equipment could be considered surplus as quite few of them were still required for the supervision staff and other activities that would still be carried out by the organisation's in-house team. In addition, some plant equipment should not have been included in the study as they were being used for other locations within the organisation. Therefore, only 18 vehicles and 8 plant items could be treated as surplus and not as originally envisaged. Also, there was a problem with the method of calculating vehicles/plant running costs, which meant they did not reflect actual costs. The replacement value for vehicles did not match recent purchases of vehicles and the replacement value for plant equipment did not match estimated cost in capital equipment programme. In addition, the life span for these vehicles and plant equipment did not conform to existing data.

Based on these findings adjustments were made to the pre-'Contracting Out' baseline calculation in order to pave the way for the calculation of actual cost savings after 'Contracting Out', as would be seen in the next section.

Actual Cost Savings

In order to arrive at the effectiveness of 'Contracting Out' the MSB&C services as far as the cost savings are concerned, the actual cost savings were calculated so that they can be compared with the anticipated cost savings pre-'Contracting Out'.

Before such calculations could be made a review of documentation on actual manpower deployment one year after 'Contracting Out' had taken place revealed the following:

- Not all of the 191 staff became surplus.

  - 21 of them were retained in the same camp to carry out special maintenance work.

  - 6 staff although transferred to other locations within the organisation, they did not occupy productive posts as they were held as supernumerary (over and above the existing manpower establishment of that location).

  - 5 staff were transferred to other locations against unproductive expatriate labour (UPL).

  - 32 staff were held against existing expatriates in other locations presumably for Omanisation purposes.

  - 7 staff were transferred against hired labour (additional hiring) in other locations within the organisation.

This finding if held correct would have meant that the total expenditure of these 71 staff could not be considered cost saving, as they have not become surplus and would have undermined the anticipated cost saving predictions. Hence, only the remaining 120 of the total 191 staff could be considered surplus and would constitute a cost saving as majority of them would have been transferred to productive posts, made redundant or pensioned off.

During the field research an examination of what exactly happened after 'Contracting Out' was carried out by means of discussion with the organisation's staff from concerned departments and during site visits and the following was found:

- The 21 staff were retained for 12 months in the same location for maintenance/refurbishment work belonging to the organisation and were transferred to their respective locations after award. Although this might have affected the anticipated cost savings, its cost is offset by the fact that the organisation would have brought in an outside contractor to carry out the refurbishment work at perhaps a more expensive cost. After all the retention of such number of staff by the organisation was a contingency plan in case the contractor fails in performance. Therefore, no adjustments would be made to the cost saving as a result of this retention.

- The 6 supernumerary staff were still there one year after the services were contracted out, but were reduced to 3 during the second year and totally transferred to productive posts in the third and fourth years of contract. Hence, an adjustment to the anticipated cost savings should be made for the first and second years of contract operation only.
- The 5 staff that were transferred to other locations against expatriate unproductive staff cannot be counted as cost savings as the existing unproductive staff were also retained. However, this is only applicable for the first year as the unproductive staff were terminated after ward.
- The 32 staff that were held against existing expatriates in other locations presumably for Omanisation purposes were found to be 26 only, who were there for varying periods of time of the first year. These were reduced to 16 in the second year. Therefore, adjustments should be made to the cost savings accordingly.
- The 7 staff transferred against hired labourers can be considered as cost saving as the hired labourers were subject to permanent hiring which meant they were required.

In addition, observations and field research revealed that some materials that were supposed to be within the contractor's scope and were counted as cost saving in the feasibility study, continued to be supplied by the organisation due to problem of vagueness in scope of work clauses as discussed earlier in section 11.3.2 (*feasibility study*). Moreover, it has been observed that as a result of vagueness of scope of work and weakness of the organisation's supervision team in contract management the organisation incurred additional costs for painting services after 'Contracting Out'.

All the above meant that the cost savings have to be adjusted to cater for the variation in the intended original staff deployment plan and the additional expenditures in materials and painting incurred after 'Contracting Out'. It must however be noted that the manpower adjustment will take place only until the concerned staff are deployed to their intended locations, only then they would constitute a cost saving.

Based on these findings the actual cost savings were calculated by comparing the annual operating costs post 'Contracting Out' (adjusted baseline) with the actual amount of money paid to the MSB&C contractor in each year. Adjustments were made to reflect

the above findings as far as retained, supernumerary and those staff held against unproductive labour. Further adjustments were made for the cost of materials the organisation continued to pay after 'Contracting Out' and the additional painting cost borne by the organisation due to greyness of scope of work. In addition, adjustments were made to the cost of supervision staff after 'Contracting Out' that was considered a surplus in the feasibility study calculation.

Based on these calculations the actual cost savings were found to be as shown in Table 11.2.

Table 11.2 Case Study 3 Actual cost savings

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Average**
Actual cost savings	15%	27%	31%	34%	27%

In order to get a clear comprehension of the comparison of anticipated cost savings with actual cost savings as a result of 'Contracting Out' Table 11.3 was devised for ease of scrutiny.

Table 11.3 Case Study 3Comparison of Anticipated and Actual Cost Savings

Cost savings	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Average**
Anticipated savings pre-'Contracting Out'	34%	34%	34%	34%	34%
Actual savings	15%	27%	31%	34%	27%

As can be seen from the above table, the anticipated cost savings before 'Contracting Out' of 34% were found to be 15% (immediately after 'Contracting Out'). Such a huge drop in cost savings is the result of following adjustments:

- Cost of retained and supernumerary manpower.
- Additional expenditure on materials.

- Additional expenditure on painting contract.

However, in the 2nd, 3rd and 4th years that followed the cost savings were found to be at 27%, 31% and 34% respectively. This has taken place as part of the retained manpower in the 1st year after 'Contracting Out' were transferred to their intended locations where they constituted a cost saving.

Summary of Cost Comparison

This section has included a cost comparison of pre and post 'Contracting Out' operating costs of the MSB&C project under this case study for manpower and its associated costs, and materials with the aim of arriving at the actual cost savings after 'Contracting Out'. No separate cost comparison has been carried out for the expenditure in materials as the project included the supply of civil, electrical and public health materials and that no concern has been raised over increase in expenditure of spares that continued to be the responsibility of the organisation.

The cost comparison in this section has revealed that the total actual cost saving on the project is 27%. This percentage is 7% less than the originally anticipated cost saving of 34%, stated in the revised feasibility study, on which the decision to contract out was made.

Despite such reduction in the anticipated cost savings they are still considered commercially viable percentage of saving.

11.4.2 Efficiency

The efficiency of the MSB&C project was measured on a similar basis to that done for the O & M project (Case Study 2).

Examination of data collected on performance before and after 'Contracting Out' the MSB&C services revealed an increase in the number of units produced in comparison to the total number of staff executing the maintenance services after 'Contracting Out' and that the cost of producing each unit was also less.

Before 'Contracting Out' the organisation had 204 staff costed against executing the MSB&C services, in addition to the supervision team and the hired part time labourers

(3.7% over and above the cost of in-house staff). After 'Contracting Out' the contractor executed the same services with 108 staff, which is the minimum manpower requirement stated in the contract. Although the contractor brought in more staff than the said minimum to fulfil his obligations under the provisions of contract terms, the organisation did not incur any additional cost to what was agreed in the contract agreement. Table 11.4 shows the number and distribution of staff before and after 'Contracting Out'.

Table11.4 Case Study 3 Manpower before and after 'Contracting Out'

SECTION	Before 'Contracting Out'	After 'Contracting Out'
Civil	81	43
Electromechanical	67	34
Air-conditioning	32	20
Roads	5	3
Admin. Staff	19	8
Total	**204**	**108**

Despite a reduction of 47% in manpower after 'Contracting Out', there has been an improvement in productivity, although Repair Demands production was lower initially when contractor took over, which shows that the MSB&C services have been produced more efficiently after 'Contracting Out'. I.e. the results suggested more output for the same amount resource input.

This improvement in productivity was accompanied by a reduction in cost of unit production of 25% compared with that before "Contracting Out".

As part of assessing contractor's efficiency on the MSB&C project, end-users were asked during interviews on quality of service after 'Contracting Out', to comment on contractor's response time to both normal and emergency service demands. The purpose of this was to arrive at contractor's efficiency in responding to service demands.

From figure 11.2 it can be seen that 13 end-users, making up 62% of 21 total respondents, confirmed that contractor's response time to normal service calls was

quicker than that before 'Contracting Out'. While, only 19% (4 end-users) thought the response was slower and 19% thought the response was the same.

As to response time to emergency service calls, 76% (16 end-users) confirmed that contractor's response time to emergency service calls was quicker than that before 'Contracting Out', while on the other hand only 10% (2 end-users) thought the response was slower and 14% (3 end-users) thought the response was the same.

While the majority believed that the response time to normal service calls has been quicker, there has been no doubt that contractor's response time to emergency calls has been quicker after 'Contracting Out'. Hence there is strong evidence to confirm an overall improvement in response time after 'Contracting Out'. This is mainly due to contractor's efficiency and better availability of staff.

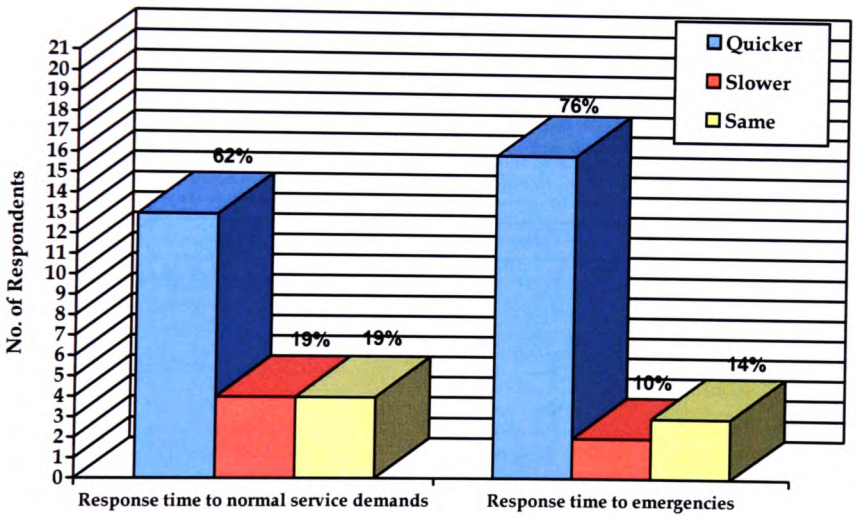

Fig. 11.2 Response Time to Normal & Emergency Service Calls

This finding is also supported by the author's experience with the contractor, being a service receiver on the same camp where 'Contracting Out' has taken place. On more than five occasions the author tested the company's response to both normal and emergency service calls, even by making test calls, sometimes from different locations. The company's response time was found to be quicker than that before 'Contracting Out', averaging at 15-20 minutes. Discussions with the organisation's staff at the after duty hours Operations Room confirmed that the contractor's response to emergencies

was quicker compared with before "Contracting Out" due to ease of communication and better availability of contractor's staff.

11.4.3 Quality of Service

The quality of service for the MSB&C project was measured on similar basis to Case Study 2, but with additional measures on the time taken to repair and the quality of repair work.

The quality of maintenance services after 'Contracting Out' has been subject to different opinions. Some members of the organisation's supervision team valued the maintenance services as poor initially but improving, some valued the quality as being average; others thought it was better compared with before "Contracting Out". However, a better judgement of quality of service after 'Contracting Out' is that which could be concluded from interviews with end-users being the main receivers of the maintenance services.

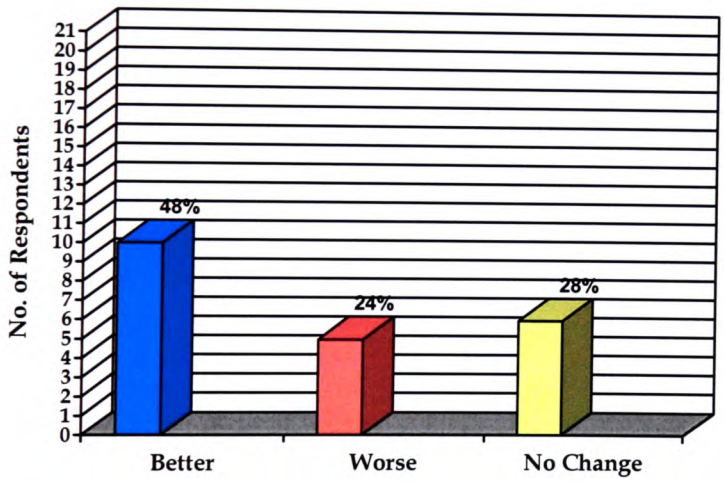

Fig. 11.3 Quality of Service after 'Contracting Out'

From figure 11.3 it can be elicited that 10 out of 21 end-users, making up 48%, stated that the quality of service was better after 'Contracting Out'. This is based on better availability of service, less number of complaints and less number of breakdowns compared with before 'Contracting Out'. On the other hand, 5 out of 21 end-users, making up 24%, thought that the quality of service was worse after 'Contracting Out'. Such perception was based on poor quality of repair leading to more complaints and delay of repairs executed by the contractor and that the contractor brought in

unqualified technicians who take time to diagnose the problem and carry out the repair works.

Interestingly, 6 end-users, making up 28%, thought that there has been no change in the quality of service compared with that before 'Contracting Out', i.e. quality has been maintained.

Based on the results it can be said that there is strong support, (76% of respondents) that the quality was either improved or maintained.

It is important to note that some respondents related quality of service to the amount of help the company provides in terms of additional free of charge services to the particular end-user. Hence, a biased answer by those who stated that the quality was worse after 'Contracting Out' in favour of the old method of operation when the organisation's in-house team used to provide additional free-of-charge services. While the organisation had no problem in principle in providing such additional free services as it is non-profit organisation, the company could not do this without an extra charge, as it operates on commercial basis. This would conflict with one of the main objectives of employing the "Contracting Out" approach.

While the above section presented the findings from the interviews on the quality of service in general the following sections give detailed findings on the quality of service after 'Contracting Out'.

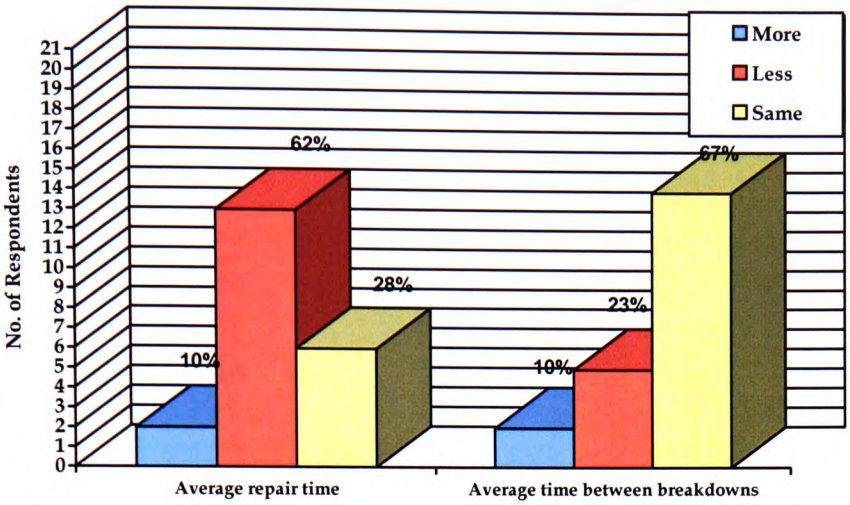

Fig. 11.4 Quality of Repair Work after 'Contracting Out'

Figure 11.4 shows response on average repair time and average time between breakdowns. 62% of respondents (13 end-users) thought the average repair time has been reduced after 'Contracting Out', while on the other hand only 10% of respondents (2 end-users) thought that the average repair time increased after 'Contracting Out'. 28% of respondents (6 end-users) thought that there has been no change in this. In general, it is evident that the average repair time reduced after 'Contracting Out' which again confirms the efficient operations of the contractor.

As to the quality of repair work, figure 11.4 shows that only 10% of respondents (2 end-users) thought that the average time between breakdowns was more, while on the other hand 67% of respondents (14 end-users) thought it was the same. 23% of respondents thought it was less. The more the time between breakdowns can be reasonably deduced to reflect better quality and visa-versa. It is evident that the quality of repair work after 'Contracting Out' remained the same. One would expect the quality of repair to be at least of same quality if not better after 'Contracting Out'. This is mainly because the contractor is obliged by contract terms to use the same quality of material as used by the in-house team when it was carrying out the maintenance work, although quality of workmanship also played a role in the quality of repair.

Linked to the quality of repair is the quality of contractor's staff.

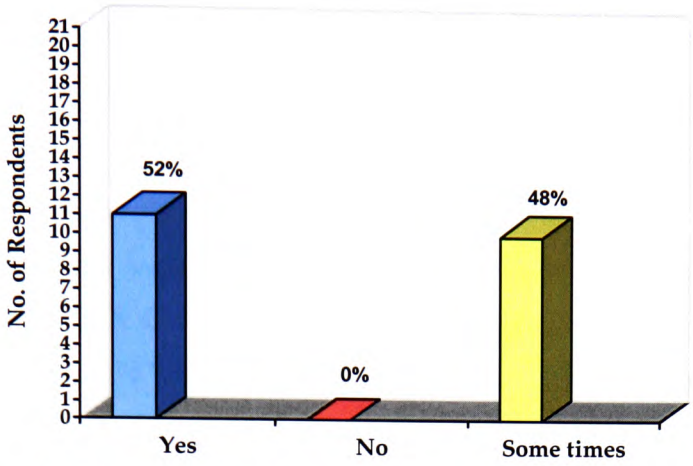

Fig. 11.5 Availability of contractor's technical staff

Figure 11.5 shows end-users answer on availability of contractor's technical staff for the maintenance work. This response reflects the quality of contractor's maintenance staff.

It is evident from figure 11.5 that the respondents were almost equally divided on the quality of technicians that normally turn up for the repair works from time to time. It became evident during research that the contractor did not possess sufficiently competent staff in some categories of the maintenance activities. Despite the fact that 52% of the end users interviewed stated that the contractor had qualified and competent staff some of these respondents, although given the answer as yes to this question, stated that there are areas where they thought that the contractor's staff were not fully qualified and experienced to carry out certain works, especially in air-conditioning and refrigeration.

The author's experience with contractor's staff confirms the above finding as far as lack of fully qualified staff in certain areas of the maintenance activities.

This shows that while the company's availability for the required repair work has been better compared with that before 'Contracting Out' their technicians were not all fully qualified and experienced in some disciplines of the contracted out maintenance work.

11.4.4 Effects on the Organisation's Existing Staff

General

This section describes the extent of the effects of 'Contracting Out' the MSB&C project on the organisation's in-house staff that were executing the maintenance services before 'Contracting Out'.

In order to have an insight of the extent of these side effects in the MSB&C project, a study of what exactly happened to the existing staff after 'Contracting Out' has been carried out. Table 11.5 shows the number of staff that were carrying out the in-house MSB&C services before 'Contracting Out' and indicates what exactly happened to them after 'Contracting Out'.

Table 11.5 Case Study 3 In-house Staff Deployment After 'Contracting Out'

Category	Omanis	Expatriates	Total
Transferred to other locations within the organisation	144	36	180
Retired (Omanis)	12	0	12
Contracts Terminated (Expatriates)	0	12	12
Total	**156**	**48**	**204**

Out of the total manpower of 204 that were carrying the MSB&C services only 24 (12%) lost their jobs. 12 out of the 24 (i.e. 6%) were Omanis that were retired, and the remaining 12 (expatriates) had their employment terminated as their services were no longer required. The 12 Omanis that were retired had reached the official retirement age and were to be retired whether the maintenance services were contracted out or not. Interestingly, one of them has chosen to go on a voluntary basis before the services were contracted out. However, these have been lucky, compared to Omani staff retired as a result of 'Contracting Out' the O & M services at Case Study 2, as they were retired

under the new pension scheme with improved terms. In addition, 10 out of the 12 expatriates were found over age and the other 2 resigned from service before 'Contracting Out' had taken place.

The remaining 180 were retained by the organisation and transferred to other locations to fill vacant posts and to Omanise some posts occupied by expatriates. One Omani only, decided to join the MSB&C contractor. A review of the transfer locations revealed the following:

a) 132 staff i.e.91.7% of the 144 Omani staff were transferred to nearby locations and were not significantly affected. It became clear during the review that the organisation had done a good job in protecting the interest of its staff, not only by making sure that they are not affected badly by the transfer but by making efforts to send some of the displaced staff nearer to their homes. 28 staff had benefited from this. Research revealed that only 12 staff i.e. 8.3% of the 144 Omani staff were transferred to locations far from their homes, which affected those staff both economically and socially. Socially, as they are now away from their families and hence unable to look after their needs to the same extent. There is also an economic disadvantage, as they have to travel long distances and pay for accommodation while still incurring costs for their home.

b) The remaining 36 expatriates were transferred to scattered locations within the organisation to fill pressing vacancies on similar basis to what happened on Case Study 2. Again these expatriates were not really affected by the transfer as they have left their families back home to work in Oman and that it did not matter which part of Oman they worked in.

11.4.5 Effectiveness Evaluation

This section is a summary of Case Study 3 effectiveness by applying the effectiveness evaluation framework formulated for this research. In addition, a comparison of the perceived and actual advantages and disadvantages/risks shall also be addressed to highlight the overall effectiveness of the project. Effectiveness is achieved if all the four elements shown on figure 11.6 are achieved. The following sections consider these elements in some detail.

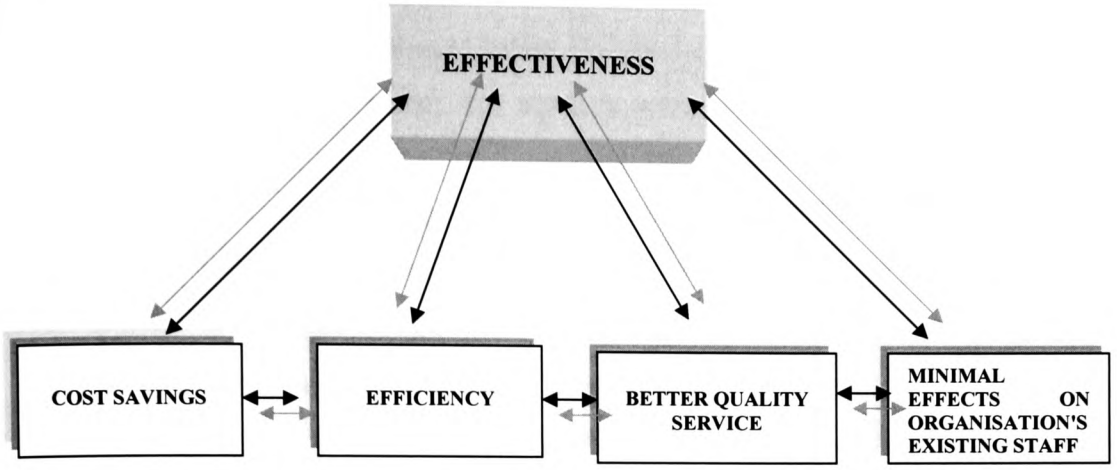

Fig.11.6 The Four Essential Elements For Effectiveness

Cost Savings Element

The cost comparison at section 11.4.1 revealed that the actual cost savings as a result of 'Contracting Out' were 27% of its pre-"Contracting Out" operating costs of the maintenance services. The cost savings were achieved in the following elements:

- Manpower and its associated costs.
- Civil, electrical and public health Materials.
- Equipment and vehicles.
- Cost of hired labour.
- Painting contract.

The achieved cost savings are 7% less than the anticipated cost savings of 34% promulgated by the feasibility study report on which the decision to contract the services out was made.

Despite such a reduction it can be concluded that the 27% cost saving is a substantial saving and that the cost saving element of the effectiveness evaluation has been achieved.

Efficiency Element

The comparison made in section 11.4.2 on the efficiency of the services before and after 'Contracting Out' revealed that the services were produced more efficiently after 'Contracting Out'. The number of staff executing the services after 'Contracting Out' was only 53% of the total number of in-house staff before 'Contracting Out' while the productivity improved. Also, the contractor's response time to both normal and emergency service demands were found to be quicker.

Such efficiency has been found to be as a result of the contractor working longer hours than the organisation in-house staff, has sufficient resources available and that these resources are used more efficiently.

Results also showed that although the contractor had initial difficulty completing all the daily repair demands, his performance subsequently improved in the second year of contract.

Therefore, the efficiency element of the effectiveness evaluation has been achieved.

Quality of Service Element

The quality of the maintenance services after 'Contracting Out' has been a controversial one. Different contract supervisors had different perception about the quality of service after 'Contracting Out'. While some have valued the quality as being poor initially but improved afterwards others have stated that the quality of service has been better. There are also those who believed that the quality was same. However, from the point of view of end-users (service receivers), who should be the organisation's prime concern, 48% thought that the quality has improved and 28% thought the quality has been maintained. Such a belief was mainly based on the contractor staff's greater availability, and that the time taken to execute repair work was reduced. The average time between breakdowns has in majority been the same, but this would be expected to be more of a function of the plant, materials and maintenance programme than quality of service.

Therefore, considering that only 24% of end-users thought the quality was worse after 'Contracting Out' one can reasonably assume that, overall, the quality element was achieved but not in all areas of maintenance work.

Minimal Effects on Existing Staff Element

A review of what exactly happened to the in-house staff after 'Contracting Out' at section 11.4.4 revealed that the effects on these staff have been minimal. Only 12% of the total manpower lost their jobs. Half of them were Omani staff that had already reached their retirement age, and the other half were expatriates that were also found to be over the organisations working age limit.

Out of the total number of 144 Omani staff transferred only 8.3% were significantly affected. The rest were not affected, and some benefited by being transferred nearer to their homes (28 staff making 19%).

Hence, it can be said with confidence that the side effects on the existing staff have been minimal as far as the MSB&C project is concerned, especially in comparison to the large number of Omani staff that made up the in-house team before 'Contracting Out'.

In summary, the result of the effectiveness evaluation framework of this research shows that the MSB&C project at Case Study 3 has been effective in achieving the main objectives of 'Contracting Out', although the quality element has been a controversial one. Fig.11.7 shows the result of effectiveness evaluation in a diagrammatic format.

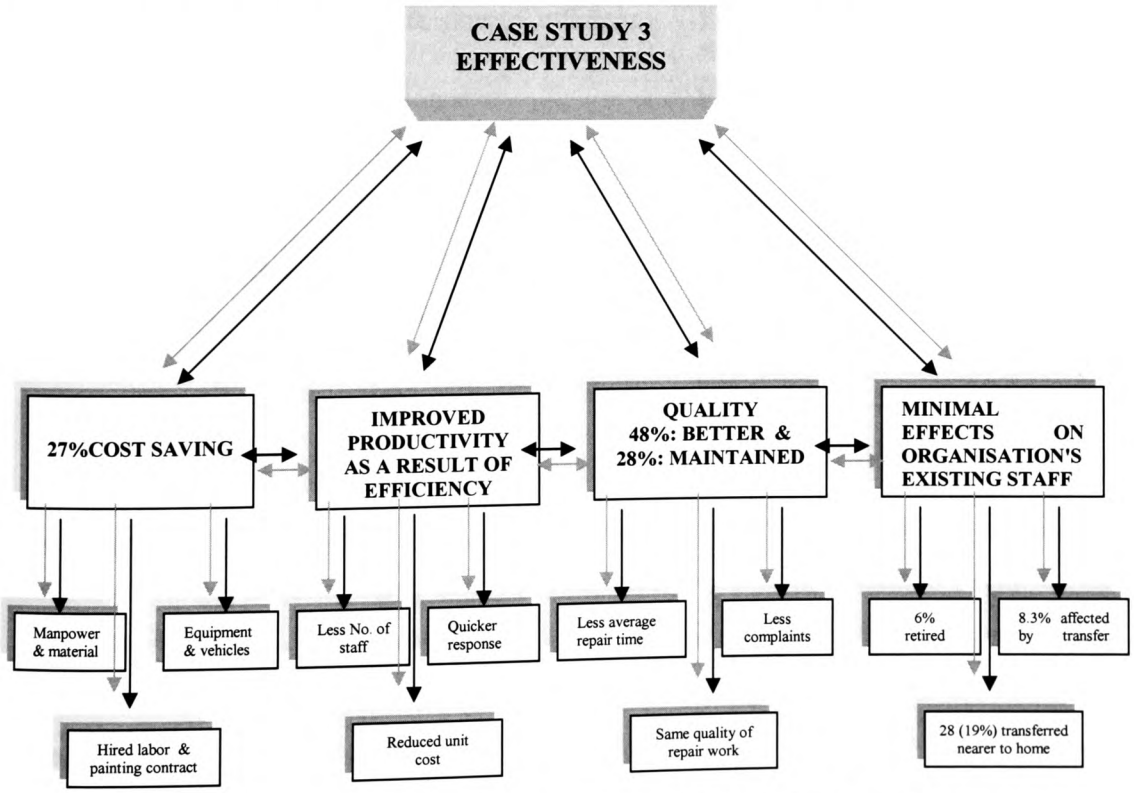

Fig.11.7 Case Study 3 Effectiveness Evaluation Results

Comparison of Perceived Advantages with Actual

A comparison of perceived advantages of 'Contracting Out' with actual has been made and these results are as shown in table 11.6. The aim of this has been to arrive at the extent to which the project has achieved its overall objectives

Table 11.6 Case Study 3 Comparison of Perceived Advantages with Actual

	PERCEIVED ADVANTAGES	ACTUAL
a.	Cost Savings in operating costs.	Yes
b.	Increased productivity and efficiency	Yes
c.	Better quality of service	Yes, but not in all areas
d.	Improvement in PPM	Yes
e.	Reduced restricted practices	Yes
f.	One stop shop/single point responsibility	Yes
g.	Reduced management responsibilities	Yes
h.	Benefit from specialist expertise and resources available in the private sector.	Not in all areas
i.	Better accountability	Yes
j.	Less bureaucracy	Yes
k.	Prolonged life of assets due to efficiency in O & M activities	Yes
l.	Shrinkage of organisation size	Yes
m.	Transparency in organisation responsibilities	Yes
n.	More detailed cost breakdown	Yes
o.	Better budgeting and improved planning	Yes
p.	Problems of maintenance is transferred to a third party	Yes
q.	Achieving Omanisation policy objectives.	Yes
r.	More job opportunities for Omanis	Yes

As can be seen from table 11.6 the MSB&C project has been successful in achieving its objectives in the majority apart from 'service quality' where the research revealed that the quality of service while improved in some areas was worse in others. In addition, it was found that the organisation's supervisory staff on the MSB&C project did not benefit from contractor's expertise and specialism in some areas due to below standard

quality of contractor's staff, which means that this perceived advantage did not fully materialise.

Comparison of Perceived Disadvantages/Risks with Actual

Another comparison that was considered necessary was the examination of the main perceived disadvantages/risks with actual results from the case study as shown in Table 11.7.

Table 11.7 Case Study 3 Comparison of Perceived Disadvantages/Risks with Actual

	PERCEIVED RISK/DISADVANTAGE	ACTUAL
a.	Social side effects	Minimal and those effected are only slightly affected
b.	Escalated service price at time of re-tendering	Not experienced
c.	Resistance to change	Some normal resistance that did not affect project execution
d.	Security problems	Not reported
e.	Probability of use and discard concept with regard to the defective parts. Instead of taking the initiative of repairing a particular part the contractor will tend to recommend replacement at the cost of the employer leading to more replacement of spares than repair.	Not evident
f.	Risk of selecting poor contractor leading to total failure, bearing in mind you have already lost your in-house capabilities.	Has not taken place
g.	Risks at time of war as contractors staff (expatriates) might decide to leave the country (as happened during the first Gulf War).	Not experienced
h.	Problem of quality control if no proper supervision is exerted	No
i.	End user's privacy might suffer.	Not reported
j.	Problem of supervision	Yes
k.	Low Omanisation percentage and less training for Omanis	Has not taken place. Stipulated Omanisation percentages have been fulfilled by the contractor

As can be seen, the majority of the perceived disadvantages/risks have not materialised on the MSB&C project which shows the overall success of the project.

11.5 Project Overview

11.5.1 General

This project was the second major project undertaken and as a consequence many improvements had taken place in the documentation and 'Contracting Out' procedures based on lessons learnt from the previous O & M project. Evidence indicates that this project was successful in all aspects apart from the quality of service side, which has been subject to different opinions.

This section provides an overview of the main areas where the project has been successful and its shortfalls.

11.5.2 Project Successes

Achievement of objectives

One of the main successes of the MSB&C project was that it achieved the pre-'Contracting Out' objectives of cost savings, efficiency and better quality service, (to a lesser extent), set for it by the organisation. Also, the majority of perceived disadvantages have not materialised.

Top Management Commitment

This project was also successful in attracting top management commitment, especially at the pre contract stage. Such commitment could be seen in the close follow up of the different activities of the project and support in resolving obstacles that arose. The fact that the number of Omani staff displaced by this project was a lot higher than the O & M project (156 compared with 51) created an initial set back for the MSB&C project. A consequence of the large number of displaced staff was that the initial deployment list proposed transfers to remote locations. This would have led to major resistance from affected staff and caused difficulties in implementing the project. However, senior management directives resulted in a revised deployment plan being formulated which facilitated the transfer of Omani staff to nearby locations.

Achievement of Omanisation Objectives

One area where the MSB&C project was notably successful was the achievement of Omanisation objectives.

The contract provided for 30% Omani staff in the first year out of the minimum manpower requirement of 108, followed by a 10% annual increase in the subsequent years. During the field research, it was found that the percentage of Omani staff provided by the contractor was more than the stipulated one. This shows the project success, as far as Omanisation is concerned. 'Contracting Out' the MSB&C services in this case has proved to be helping the Omanisation process in the organisation, and the local people in getting jobs in the private sector therefore helping the government's efforts in the Omanisation process.

Smooth Transition

Despite the large number of staff that were displaced by the project, the large number of staff the contractor had to mobilise to site and the large number of facilities the contractor had to take over, the handing over phase went smoothly without major disruption. However, it must be stressed that the organisation played a role in phasing the mobilisation period, as discussed earlier in this case study, which pre-empted many possible problems.

Additional Benefits

Another element of success in this project was the additional benefits accrued by the organisation. These benefits are exemplified in the following:

i) It resulted in the introduction of a computerised Planned Preventative Maintenance programme together with the automated PPM Inventory and report generation and the installation of a quality management system, which was not in existence before the contract. Research revealed that the MSB&C contractor installed the most expensive maintenance programme that had never been installed in the organisation. The graphical representation that was specially developed for the project was the first of its kind in the country.

ii) The organisation accrued benefits from utilising existing displaced staff by filling vacant posts and Omanising other posts that met objectives set for 'Contracting Out'. By transferring the affected staff to nearby locations the organisation achieved the following benefits:

- If the contractor fails in performance, the existing experienced staff (although not all) are available for quick re-mobilisation.
- Staff morale was not negatively affected.

11.5.3 Project Shortfalls

Lack of Clear Procedures

Although the O & M project has established some procedures for 'Contracting Out' projects within the organisation, there was still a lack of clear procedures for the different stages the project went through. This was evident at both pre and post contract stages.

Vagueness of Scope of Work

One of the main shortfalls of the MSB&C project is the fact that the scope of work did not make some issues related to contractor's responsibilities on materials very clear. Such vagueness in the provisions of the scope of work led to disputes, and resulted in the organisation incurring additional (avoidable) expenditures.

Contract Supervision

Contract supervision is another area where there was a weakness on the project. Although some restructuring has taken place on the supervision team, the same team who supervised the in-house services, supervised the activities of the contractor after 'Contracting Out'. The supervision team had no experience in contracts management, and this coupled with low quality of some of contractor's staff initially employed on site resulted in initial problems of poor communication and delays.

CHAPTER 12

DISCUSSION OF FINDINGS

Chapter 12

DISCUSSION OF FINDINGS

12.0 Introduction

As discussed in Chapter 1 this research aims to evaluate 'Contracting Out' projects at the author's organisation and to quantify their effectiveness in terms of achieving their objectives. The main objectives of the study are as follows:

i) **To establish the motivating reasons and perceived advantages/disadvantages for 'Contracting Out' the organisation's in-house services,**

ii) **To assess the present 'Contracting Out' projects at the author's organisation in order to identify problems inherent in their implementation,**

iii) **To evaluate the effectiveness of the organisation's 'Contracting Out' projects,**

iv) **To identify lessons learnt and success factors of privatisation through 'Contracting Out',**

v) **To recommend improvements to the present 'Contracting Out' system and procedures at the organisation.**

The previous Chapters 9 to 11 presented the three case studies findings and analysis in relation to the implementation problems and the effectiveness evaluation. This chapter discusses the findings of the research in relation to the first three main objectives of the research, stated above. The last two are addressed in Chapter 13 (Evaluation and Review). This is undertaken by comparing the findings of case studies with each other to arrive at a holistic view on "Contracting Out" in the organisation. The comparison is followed by an examination of the research hypotheses in comparison to the research findings and relating them to the theoretical background from Chapter 3.

Therefore, to satisfy its aim the remainder of this chapter is divided into three sections:

(i) Sections 12.1 and 12.2 are devoted to the comparison and discussion of the three case studies findings in relation to the implementation problems and effectiveness evaluation.

(ii) Section 12.3 provides a comparison of the research findings with the research hypotheses and the theoretical background.

12.1 Implementation Problems

12.1.1 General

This section compares and discusses the findings arising from the three case studies in relation to the implementation problems only as the effectiveness evaluation is discussed separately in the next section, so that a holistic view can be made on the organisation's "Contracting Out" efforts.

The following sections provide a comparison on the implementation problems from the three case studies, under the four main headings, namely, contract documentation, procedures, mobilisation stage, and operation stage.

12.1.2 Contract Documentation

General

The MRAH project at Case Study 1 provided some fundamental lessons on contract documentation that were used to improve contract documentation for the subsequent O & M and MSB&C projects at Case Studies 2 and 3 however, the field research for the latter projects revealed some residual problems. The following sections detail the main findings in this regard.

Vagueness in Scope of Work

One of the main problems with the contract documents for the three case studies was the vagueness of scope of work in relation to contractor's responsibilities over certain works, spare parts and materials supply. It seems that the service level of specification was based on assumptions on how the operation was supposed to be executed,

especially as these services were being contracted out for the first time. Although, such a problem was not significant on the Case Study 2, it created some disputes over certain issues on Case Study 3 as discussed under contractual disputes in section 12.1.5. As a consequence of this vagueness the organisation incurred additional costs in the supply of some materials in-house and in paying for some services that were believed to be under contractor's scope. This resulted in a reduced cost savings.

Penalties and Incentives

Another problem in relation to contract documentation was the provisions of penalty clauses incorporated into contract conditions and the lack of any incentives for improvements in performance by the contractor. The initial contract for the project at Case Study 1 did not include penalties for non-fulfilment of maintenance obligations, although reference was made to "Damages for Delay", but even these were found to be unclear. Case Studies 2 and 3 contract documents concentrated on this issue imposing harsh penalties on the contractor for failure in Case Study 3, and no consideration being given to performance incentive clauses in the contract documents of all three cases. Given the 'mutual benefit' principles of "Contracting Out" projects, balancing penalties and incentives is considered as an important factor for successful implementation.

Minimum Manpower Requirements

On Case Study 1 no minimum requirement was set for manpower, plant and equipment which led directly to a below-standard performance by the contractor. On Case Studies 2 and 3, on the other hand, such requirements were incorporated. However, the basis for setting such minimum requirements is not clear. On Case Study 2 no problems were faced with such requirement; one tenderer offered to carry out the services with a lesser number of staff than the one set, but the organisation was not comfortable with such an offer, therefore it did not accept it. On the other hand, on Case Study 3 the minimum manpower requirement was not sufficient. The successful contractor had to bring in more staff to site in order to fulfil his obligations. Unsuccessful tender offers were also based on a higher manpower level than that set by the organisation. This shows that such minimum manpower evaluation by the organisation did not always reflect actual scope requirements.

12.1.3 Procedures

General

The project at Case Study 1 set some precedence in implementing 'Contracting Out' projects within the organisation. It was the first one of its kind, but it did not establish clear procedures for implementing 'Contracting Out' projects. Case Study 2, on the other hand, did establish some "Contracting Out" procedures in the organisation that were useful for implementing Case Study 3. However, to date, no such in-house procedures have been provided by the organisation to assist in any future "Contracting Out" projects. There are quite a number of implementation problems related to procedures at the different stages of the projects that have been revealed in this research, which are detailed below.

Pre- tender

Both Case Studies 2 and 3 revealed that there was a lack of awareness from concerned staff on what "Contracting Out" is and why the organisation opted for such a process. Such lack of awareness stems from lack of published guidelines and lack of involvement of staff in the early stages of the process. Although some improvements were evident on Case Study 3, there were still some weaknesses in co-operation and co-ordination between concerned staff from the effected units, and the department responsible for specifying the scope of work.

The fate of the existing in-house staff affected by "Contracting Out" was not made clear on any of the projects studied. Staff were left to wonder what might happen which led to low morale and a reduction in the maintenance work carried out in the year that preceded "Contracting Out". As a consequence the organisation had to pay additional money to correct the defects backlog, before the contractor took over.

A noticeable issue at this stage was the selection of which services/camp to contract out. Research revealed that no assessment of the existing position was carried out prior to "Contracting Out" for any of the three projects studied. The existing efficiency of the services, productivity of staff, or the quality of service provided to the end-users were

therefore not established. The selection of which service/camp to contract out seemed not to have been founded on a clear basis for selection. The services and camp for Case Study 2 were said to be a pilot one, with the main reasons being the potential cost savings and adherence to government policy of encouraging private sector participation in government services provision. On the other hand, there was no clear basis for selecting the services and camp for Case Study 3, other than, that the displaced staff could be transferred to nearby locations and could be swiftly remobilised to continue the service in the case of failure by contractor. The number of Omanis that were working on the services was high, reaching 70% of the total manpower, which created some set backs initially due to difficulties in scheduling their re-deployment.

Feasibility Studies

Feasibility studies were based on comparing current operating costs with most realistic tender offer, but were finalised after tender offers were received.

This method has proved to be useful for Case Studies 2 and 3 but undertaking the feasibility study at post tender stage is unfair to contractors as tendering for "Contracting Out" projects costs the contractor a lot of money and project can take up to one and a half years before it is finally awarded as was evident on case studies 2 and 3. There might also be times when the project does not prove to be viable and gets cancelled. In this case the resources of the tenderers in assembling a bid are wasted.

Case Studies 2 and 3 had a feasibility study that involved a third party; the Ministry's Internal Audit Department. This was an improvement compared with Case Study 1. However, feasibility studies of both projects were based on inaccurate data. The number of in-house staff before "Contracting Out" and the number of plant/equipment and vehicles that would become surplus were inaccurately estimated. In addition, some of the data on expenditure of materials were based on budget figures as opposed to actual expenditure, which jeopardised accurate cost assessment.

One of the weaknesses of feasibility studies for all the 'Contracting Out' projects studied was that they assumed that displaced staff would be posted to productive posts, made redundant, or retired. Hence the cost savings incorporate this assumption. Research

revealed that on Case Study 2 the anticipated cost savings were based on the assumption that the whole section of the particular in-house department affected by "Contracting Out" would be abolished, and any vacancies would go. What happened after "Contracting Out" was that existing vacancies did not go after "Contracting Out" but were utilised on the same facilities and used for other locations than the affected one. This has meant that part of the anticipated cost savings was false and actual cost savings had to be adjusted to arrive at the real cost savings. Similar situations also took place on Case Study 3 that undermined the cost saving assumptions

It must however be stated, that compared with Case Study 2 the contents of the feasibility study report for Case Study 3 were much improved and facilitated a more informed decision by high authorities.

Tendering

The tendering procedures for Case Studies 2 and 3 were found to be a significant improvement on that used on Case Study 1, where a single source tender was negotiated; however, some problems did arise.

One of the main shortfalls of the tender documents for all "Contracting Out" projects studied in this research is the lack of transparency on bid evaluation criteria. This issue is very important especially in complex 'Contracting Out' projects such as the ones studied. Without such criteria, tenderers are left to wonder what the most important issues that the organisation would be concentrating on during tender evaluation are. The lack of clearly stated criteria similarly affects the in-house technical team who have to make their own assessment of appropriate criteria/methods of technical evaluation. Whatever criteria they devise might be disadvantageous to a potentially successful contractor, as they might have overlooked some of the issues included in such evaluation criteria. On Case Study 3, for example, the organisation's tender evaluation team decided to include Omanisation as one of the criteria without giving any indication of this in the tender documents. Had a decision not been made to negotiate with tenderers on this issue the evaluation would have been unfair. In addition, lack of evaluation criteria led to a lengthy negotiation process on all projects studied.

Research also revealed that there was a lack of uniformity across all 'Contracting Out' projects, as far as the technical evaluation of submitted offers is concerned, and that there is no single party responsible for such a technical evaluation. On Case Study 2 this issue was given full consideration by involving all concerned parties, but on Case Study 3 no proper technical evaluation was carried out and the concerned department was not involved.

Pre-qualification was carried out for Case Study 2 however; the tender was not floated as a selective tender but an open tender. It is the researcher's considered view that a selective tender action would have been more appropriate for this type of projects as the number of contractors that could do the work was limited and that a large number of open tender returns are normally expected. This occurred on Case Study 2 where a total of 19 companies participated in the tender and 11 submitted offers. This meant that considerable abortive effort was expended in the evaluation and short-listing of capable contractors. As far as participating contractors are concerned, time and resources were wasted as many could have been eliminated during a pre-qualification procedure thus eliminating the work and cost required for a full tender submission. Such pre-qualification would have acted as a screening process on Case Study 3, where the lowest contractor submitted a bid 60% lower than the second lowest, and was subsequently disqualified after a considerable time was spent on analysing the offer and in convincing the tender committee that they were not capable of executing the project.

Participating tenderers raised many tender queries during the tender stage and after the site visits. On Case Study 2, the method that was used to answer these queries was to issue several written addendums to all participating tenderers. However, some of the issues remained unclear, which led to ambiguities in the tender submissions. Many of those queries and associated correspondence could have been reduced if a face-to-face meeting had been held with all tenderers after the site visit has taken place. When the project at Case Study 3 was tendered, the response method to queries raised by tenderers was improved, as face-to-face meetings were held after the site visit and during post tender clarifications. A site meeting was held with all participating tenderers immediately after the site visit, which clarified points raised by tenderers. Although this proved to be effective the author believes that it would be more useful if the clarification meeting was held few days after the site visit to allow tenderers time to

evaluate what they saw during site visit in relation to what was stated in the tender documents.

Contract Award

A major problem for all the projects was the delay in the decision to award. On both Case Studies 2 and 3 it took almost one and a half years to award, from the date of advertisement. The reasons for such delay have been:

- Feasibility studies were finalised after receiving the bids,
- Affected manpower transfer issues were studied while tenders were being analysed,
- Lengthy tender evaluation due to lack of pre-set evaluation criteria,
- Lengthy negotiation process.

A contributing factor for delay, based on a holistic view of the three "Contracting Out" projects, was that there was no single party or department within the organisation responsible for 'Contracting Out' projects i.e. documentation, procedures, decision etc. Once the concerned department had completed feasibility studies separate parties are tasked to evaluate the study and verify the data, leading to delay in decision, not only to award, but whether to proceed with "Contracting Out" the service at all.

12.1.4 Mobilisation Stage

Conversion Stage

It became apparent during the research that there were no proper guidelines and procedures in place prior to the mobilisation and hand over process. Unlike traditional projects, in "Contracting Out" projects many problems are likely to arise during the conversion stage, from in-house to the contractor.

Some problems were encountered on Case Study 1 due to the lack of such mobilisation procedures. No handing over procedures were in place for Case Studies 2 and 3 either, apart from the initial joint inspection certificate.

On Case Study 2 the department that prepared the scope of work and were involved in making the "Contracting Out" decision were not involved subsequent to the award being made. Many items were not clear to the parties at the time of handing over the facilities to the contractor, which led to delays.

A problem linked to lack of handing over procedures was the absence of clear definition of standard of facilities at hand over stage. This problem took place on Case Study 2, being the first one of its type. On Case Study 3 this problem was not evident, as the contractor accepted the facilities without carrying out a thorough inspection. The contractor came to realize the result of his decision afterward when he was faced with many defects in the facilities he has taken over. This resulted in a delay in his maintenance activities during the early stages of contract.

Mobilisation Period

One of the major problems on Case Study 1 was that no time was stated in the contract documents within which the contractor had to mobilise his staff and plant equipment. It took the contractor almost a year to mobilise and problems resulted. On the subsequent Case Studies 2 and 3 a mobilisation period, was set at 30 days.

Field research revealed that there was no problem faced with such a period on Case Study 2 as the mobilisation period proved to be sufficient. However, as stated in Case Study 3 the said period was insufficient.

In Case Study 2 this problem did not become evident as the selected contractor was well established and had the necessary resources to mobilise within 30 days and was given advance notice of being awarded the contract (by means of issuing the Letter of Intent 3 months before contract start date). Moreover, the facilities included in Case Study 2 were more or less confined in one location i.e. Power Station, RO Plant and STPs apart from the air-conditioners that were scattered throughout the camp. Hence, all contractor's staff required e.g. for the operation and maintenance of the power station, were mobilised to the location where handing over could take place easily. The same was applicable to the other facilities, like the water production and sewage treatment

facilities. This meant that the mobilisation/take over of facilities issues were not a problem in Case Study 2.

By comparison, the facilities included in Case Study 3 were scattered throughout large, old camp of approximately 8.14 Km2 and their nature is more involved compared with those of Case Study 2. In addition, the number of contractor's staff were double that of Case Study 2. Therefore, the 30 days mobilisation proved to be insufficient.

There are other several reasons why the mobilisation period proved to be inadequate. Amongst the main reasons is the time taken for private sector companies to obtain foreign labour clearances from the concerned government authority. Also, it takes quite some time for private sector companies to understand the required work procedures of the organisation.

Contractor's Staff Selection

Selection of contractor's staff caused a problem on both Case Studies 2 and 3, as the organisation's supervision team did not have an experience of this and that no guidelines were provided as a basis of selection, especially for trades men. What made things worse was the fact that the majority of staff were expatriates with little knowledge of the local environment and facilities. This led to delays initially and to rejecting some of staff proposed by the contractor.

Security Gate Passes

There was a delay in issuing security gate passes to contractors' staff for entry onto the organisation's premises. This occurred in both Case Studies 2 and 3. The main reason for this delay was the lack of early notification for the relevant security departments who seem to have been taken by surprise when presented with the requirement for a large number of gate passes.

12.1.5 Operation Stage

Contract Supervision and Monitoring

One of the main problems faced in all the projects during contract execution was the problem of supervising and monitoring the contractors' activities and performance.

It was evident that this problem occurred on all three projects studied. In Case Study 1, although some monitoring procedures were enacted, the supervision team members had a problem in managing the contract due to their lack of contract management skills and an insufficient number of supervisors in comparison to the wide variety of locations through out the country. On Case Study 2 although the number of supervisors was high, they lacked the necessary contract management skills. What exacerbated this was the fact that these supervisors did not have job descriptions, nor were they provided with monitoring procedures. This led, initially, to some overlapping of their responsibilities with those of the contractors' supervisors.

Research also revealed that on all three projects no real restructuring took place on the supervision team. Although some sort of restructuring took place for Case Study 3, it did not cover all required disciplines, e.g. the air-conditioning side was not under the contract supervision office which led to bureaucracy in maintenance activities.

On all three projects the teams that were supervising the in-house activities were subsequently tasked with supervising contractors' activities after "Contracting Out". Although the existing teams were familiar with the facilities, problems arose because they were not qualified or given training in the additional contracts management role they were required to perform. This led to difficulties in communication and poor co-ordination/co-operation with contractors' staff, resulting in delays during the initial stages of contract execution.

Contractual Disputes

Contractual disputes took place on all three projects but to a lesser extent on Case Study 2. On Case Study 1 there were disputes in relation to the penalties imposed on the contractor for poor performance. On Case Study 3 there were disputes in relation to

scope of work, materials supply and requirements of the computerised PPM programme.

Evidence has shown that such disputes were mainly the result of vagueness in the provisions of penalty clauses in the conditions of contract in the case of Case Study 1, and due to vagueness in 'scope of work' and in the requirements of the computerised PPM programme for Case Study 3. The author believes that had the scope of work been carefully drawn and the requirements of the PPM program been spelled out clearly, showing a sample of output expected, the disputes would not have arisen.

Effects on Omanisation

As discussed in Chapter 5 of this study, Omanisation (the process of replacing expatriate workforce with local workforce) is an important aspect of the government's policy in the Sultanate of Oman. Having realised the need for acting on this issue the government has imposed rules and regulations on the private sector companies to promote Omanisation. Due to the importance of such an issue a close review was carried out for the three projects studied for the purpose of this research.

On Case Study 1, which was an earlier "Contracting Out" project within the organisation where no obligations were imposed on the contractor, Omanisation did not take place as the contractor employed a majority of foreign labour.

On Case Study 2 the contract documents did not impose any special obligations on the contractor as to the number of Omanis that should be working on the contract. Instead, the contract documents left it open to the contractor to satisfy the requirements of the labour law set by the concerned ministry responsible for enforcing Omanisation. At that time the Oman labour law required a minimum of 20% of Omanisation in the company as a whole and not on a particular project.

Research into this issue for Case Study 2 revealed that the contractor employed 8 Omanis (12%) in the first year, the majority of them were in unskilled trades and the number did not increase through out the contract period. As per contract terms, the contractor fulfilled his obligations with regards to satisfying the labour law by achieving

the 20% criterion across the whole of the company. However, the organisation's social objectives have not been achieved.

The Internal Audit Department raised the issue in their Audit Review after one year of operation, based on discussions with the author. The author by that time had reviewed similar contract documents of other government/non government organisations in the country and found that certain Omanisation percentages were specified in those contracts. Hence, the recommendation of Audit Review Report suggested certain targets of Omanisation should be specified in the contract itself. The percentage of Omanisation suggested by the end of the 1st year was 20% with an increase of 10% yearly thereafter.

Having learnt from the project at Case Study 2 that certain targets should be specified in the contract documents, the succeeding Case Study 3 tender documents specified certain percentages of Omanisation. However, during the tender evaluation stage new government rules were issued requiring private sector companies to fulfil a 30% Omanisation on projects in year one followed by an increase of 10% each year thereafter.

The contractor at Case Study 3 had actually satisfied the Omanisation requirements set in the contract documents therefore the organisation's objectives have been achieved in this regard.

Security Implications

The Ministry's camps on which the organisation's services are contracted out are sensitive due to their military nature.

One of the noted risks stated by many respondents is the problem of security that results from allowing private contractors to work on the organisation's camps.

By allowing private contractors to work on the organisation's properties and plant sensitive information could be passed to third parties, especially if the private contractor is allowed to work in sensitive military areas. There is therefore the risk that sensitive areas might become vulnerable.

Allowing private contractors to work on military premises is not new. Private companies have been supplying sensitive services of other departments of the Ministry for the last 3 decades. However, security exposure of the organisation's data and premises is considered to be a risk that required very close attention from the early stages of the contract. An issue that makes security of organisation's camps potentially vulnerable is the fact that private sector companies in Oman rely heavily on expatriates from different countries. Confidential information is normally accessed by the contractor working on the organisation's facilities.

On Case Study 2 minor security issues occurred as contractor's staff violated the security regulations while working on the organisation's camp. This meant that some of contractor's staff had to be removed from site. In addition, as a reaction to security issues on Case Study 2, the organisation dedicated additional security staff who had to undergo training on 24hrs manning of some areas of the O & M facilities.

On Case Study 3, on the other hand, new strict security requirements were implemented as a result of tighter security after the 11th of September 2001 e.g. Security badges issued to company's staff and security checks were done.

It is expected that, especially at the start of the contract, contractors will be likely to employ a low number of Omanis to reduce expenditure. This results in the majority of contractor's staff being expatriates. Whilst there is no doubt that Omanis would support their country in time of conflict (War) there is some doubt regarding the support of the expatriates, employed by the contractor, as their governments might insist on their withdrawal. What happened during the first Gulf war is an example of this. However, it should be stressed that this issue has not had any implications so far on the projects studied, and that it is a short term one, as Omanis gradually take over, this problem will reduce.

Contractor's Performance

The organisation has not faced problems with the performance of the contractor on Case Study 2, perhaps due to the less complicated nature of the services and the good

capabilities of the contractor, but there were problems the Case 1 contractor's performance and initially with the performance of the contractor at Case Study 3.

On case study 1, the contractor's performance was not up to the organisation's supervision team expectations due to inadequate resources on site in comparison to the widely scattered roads. On case study 3, although the quality of some staff the contractor employed played a role in the poor initial performance (especially the supervisors) the nature of the works, the age of the camp and the varied number of end-users in comparison to Case Study 2 was also a contributory factor. The organisation had been carrying out this type of maintenance services for more than 28 years, while the contract with the contractor on Case Study 3 was the first one under the privatisation initiative. Changing the provider from in-house to external contractor proved problematic initially. Some in-house staff had worked on the facilities for a long period of time and they had in-depth knowledge of the facilities. For a new contractor to take over is a challenge. The new contractor has first of all to become familiar with the scope of services and the facilities. The service receivers (end-users) are human beings with a variety of expectations that have to be appreciated. All of this means that the contractor requires time to become fully conversant in the maintenance work requirements.

This research has revealed that the contractor's performance at Case Study 3 did improve as his staff became familiar with the facilities and the nature of the services involved.

Increase in Expenditure of Spares, Consumables etc.

During the field research for Case Study 2 a concern was raised by respondents on the increased expenditure on spare parts, consumables, etc. during the first year of contract operation. A review and in-depth analysis of the issue revealed that there was an increase in expenditure in the first year but the increase was not the result of the O & M contractor's inefficient operations. The increase was the result of planned maintenance and facilities refurbishment work not having been carried out during the year that preceded "Contracting Out", as staff's morale was low when they became aware of impending and uncertain changes.

On Case Study 3 no concern was raised over this issue as the majority of materials were in the contractor's scope and that a review of expenditure of spares after "Contracting Out" by the author revealed that there was no increase in expenditure after "Contracting Out".

What can be learnt from this issue is the need to carefully plan the transition from in-house to contractor and keep affected staff informed of deployments especially, why it is happening and how it will affect them.

Delay in Spare Parts and Materials Supply

The issue of spare parts and materials supply was treated differently on the three projects. In Case Study 1 the contractor was responsible for everything including the supply of material necessary for the works, perhaps due to the nature of the works. In Case Study 2 the services were procured on the basis that the organisation would supply all necessary spares, consumables etc. On the other hand, on Case Study 3 the contractor supplies all civil, electrical and public heath materials while the organisation supplies spare parts for air-conditioners and other mechanical equipments.

Delay in the spare parts supply was found to have taken place initially on both Case Studies 2 and 3. Such delay was found to be due to late involvement and lack of proper co-ordination with the concerned departments and due to poor planning, initially, of the requirements of spares for the services.

Resistance to Change

An issue that has caused problems in all three projects considered, is opposition exemplified in resistance to the change from in-house provision to contractor. Research revealed that this problem took place in Case Studies 2 and 3 initially; however, it did not severely affect the activities of the contractors. Such initial resistance was from in-house staff affected by the move. In-house staff were not very co-operative during hand over to the contractor due to the feeling of losing their job to someone else. There was also some resistance to the contractor occupying the organisation's vacated

accommodation. Some resistance was also displayed in the lack of proper co-operation from concerned departments during the early stages of information collection, scope of work preparation, technical evaluation, transitional stage and contract implementation. Such resistance was due largely to the lack of appreciation of the "Contracting Out" process and the organisation's motives for "Contracting Out" its in-house services.

However, it must be stressed that such resistance to change did not hinder implementing any of the "Contracting Out" projects as the services receivers are military personnel and that the services have been provided mainly on military camps.

12.2 Effectiveness Evaluation Comparison

12.2.1 General

This section provides an overall effectiveness evaluation of the organisation's "Contracting Out" projects based on the findings from the three case studies. This evaluation was carried out by comparing the effectiveness evaluation findings from mainly the two major Case Studies 2 and 3, namely the O & M and MSB&C projects. However, the comparison will include the findings from the less detailed Case Study 1, the MRAH project, wherever possible, to allow for a holistic view of the process leading to conclusions on its overall effectiveness. Table 12.1 provides a comparison on effectiveness of the three projects, which actually reflects how far the organisation's main objectives were achieved, and the sections that follow provide a discussion of these under the four main elements for effectiveness; cost savings, efficiency, quality of service and effects on the existing staff. This is followed by a section on the overall effectiveness assessment.

Table 12.1 Case Studies Effectiveness Evaluation Comparison

Element	Case Study 1	Case Study 2	Case Study 3
Cost savings	No cost savings were achieved on the original contract but savings were later achieved when the contract was subjected to competition.	19.5% In manpower, spares, consumables etc.	27% In manpower, materials, plant equipment etc.
Efficiency	Not examined and not clear from field research	Improved	Improved
Quality of Service	Worse on the original contract but was improved on the re-tendered one when a different contractor was appointed.	Better	Better, but not in all areas
Effects on Existing Staff	Side effects were high	6.3% (7) Omanis lost their jobs through retirement and 27 % (14) affected by transfer	6% (12) Omanis lost their jobs through retirement and 8.3% (12) affected by transfer

12.2.2 Cost savings

The cost savings element was achieved on Case Studies 2 and 3. Although no cost comparison before and after "Contracting Out" was possible for Case Study 1, the field research revealed that the original single source contract was very costly compared with the original operating costs before "Contracting Out". However, such increased costs seem to have been offset on the later, re-tendered, competitive contract which resulted in a much lower price compared with the earlier one.

On Case Study 2 the actual cost savings were found to be 19.5% compared with the anticipated one of 18%, which exceeds those anticipated by 1.5%. On the other hand, the actual cost savings for Case Study 3 were found to be 27% compared with the anticipated one of 34% which is 7% lesser than those anticipated. The increased cost savings on Case Study 2 was due to the efficient operations of the contractor who managed to save the organisation some of its expenditure on spares, consumables etc; the responsibility of which was not part of contractor's scope. The decrease in cost

savings of Case Study 3 was due to adjustments for the retained staff and additional expenditure incurred by the organisation on materials and painting work.

The actual cost savings were arrived at after considering all costs associated with the process. However, on Case Study 2 no contract supervision cost was added due to that the same team that supervised the in-house activities, whose cost was not considered as cost saving in the feasibility study, continued to supervise the contractor's activities after 'Contracting Out'. On Case Study 3 similar arrangements took place but adjustments were made for those supervisors that were considered as cost saving in the feasibility study, but, were actually retained for contract supervision.

Many respondents commented during interviews that 'Contracting Out' to the private sector companies in Oman is a cheaper alternative to public sector in-house production as the private sector relies heavily on a low cost Asian labour workforce. While this comment might, on the face of it, hold true it can be argued that this should not be seen as an exclusive reason for cost savings. It is possible that companies will employ Omani staff but production will remain high and savings made due to the fact that the private sector uses an incentive system linked to efficiency gain.

This argument is supported by the experience on Case Study 2 in which the original intention was for the successful company to take over all the Omani staff (38% of total staff) with the same salary structure as that of the organisation. When the decision was made to retain these Omanis, the successful contractor did not offer any additional discount despite the fact that the majority of staff eventually employed by the contractor on the project were expatriates. Also, on Case Study 3, when the company was asked to implement the new Omanisation percentages of 30% in the first year followed by an increase of 10% annually thereafter, which came to being post tender submissions, the contractor agreed to the requirement without amending his tender price.

The above indicates that the use of a low cost Asian labour is not the main reason for cost savings.

12.2.3 Efficiency

While the efficiency on Case Studies 2 and 3 were improved after 'Contracting Out', the same was not evident on Case Study 1, largely due to the poor performance of the contractor and the way the contract was implemented.

On Case Study 2 it was evident that production improved coupled with a reduction in the unit cost of production, while manpower was reduced, post 'Contracting Out', by 41%. The same applied to Case Study 3 where manpower was reduced; post "Contracting Out", by 47%.

12.2.4 Quality of Service

The quality of service after 'Contracting Out' gave different findings on the three projects. However, overall it could be said that the quality of service has been improved after 'Contracting Out', based mainly on the findings from Case Studies 2 and 3.

On Case Study 1, the quality of service did not improve on the initial single source contract, due to the below standard performance of the contractor. However, quality did improve following the subsequent competitive contract when a different contractor took over.

While there was a clear-cut conclusion that the quality of service has improved on the Case Study 2 after 'Contracting Out', it was subject to different findings on Case Study 3.

On Case Study 3, although the contractor's response was better to both normal and emergency service demands, average repair time was quicker coupled with better availability after 'Contracting Out', the quality of work did not improve for all areas of maintenance activity. Nevertheless, based on the evidence from the research the quality of service on Case Study 3 has overall either been maintained or improved.

12.2.5 Effects on Existing Staff

It is evident from this research that the effects on the existing staff were high on Case Study 1 as some Omani staff were transferred to remote locations and others were retired as a result of 'Contracting Out'. The understanding between the organisation and the contractor, that the contractor would employ redundant staff did not materialise. However, it must be stressed that this project was the first 'Contracting Out' experience in the organisation that did not follow a structured methodology in its implementation.

On Case Study 2, 15 staff lost their jobs, 7 of them were Omanis that were retired making 6.3% of the total manpower. Also, the transfer to places far from home affected 14 Omanis (27%).

On Case Study 3, 24 staff lost their jobs, 12 of them were Omanis that were retired making 6% of total manpower. However, the transfer affected only 12 Omanis (8.3%).

Research revealed that the retired Omani staff on Case Studies 2 and 3 had reached their retirement age anyway. The only effect on these staff on Case Study 2 is the fact that 'Contracting Out' has accelerated their retirement, resulting in them being retired under the old, less attractive, pension scheme. As to the expatriates who lost their jobs; research revealed they were beyond normal working age and some were medically unfit. The percentage of affected Omani staff by the transfer has been higher on Case Study 2 compared with that on Case Study 3, though the number is almost same, 14 and 12 staff respectively. As to the expatriates affected by the transfer on both projects it is fair to say that such a transfer did not affect expatriates as they have been brought in to fill a shortage of technical staff.

Critics of 'Contracting Out' within the organisation tend to focus only on the immediate and short term negative effects to existing staff that may be affected by 'Contracting Out' certain services. As discussed above, few existing staff were made redundant or were affected by transfer to other locations because of 'Contracting Out'. There are some staff whose status was enhanced by being transferred nearer to their home, as in the case of Case Study 3, or promoted to offset the economical effect of the transfer, as in the case of Case Study 2.

It must be stressed that this research has shown that the organisation made considerable efforts to absorb the displaced staff in nearby locations. Hence, the organisation has done a commendable job in securing jobs for these staff. Were it not for the organisation's efforts, these employees would have been made redundant, or transferred to other locations as part of the organisation's condition of employment.

The other issue related to effects on existing staff and Omanisation in general is the criticism that "Contracting Out" effects the overall Omanisation in the Country. Critics claim that transferring certain government services to the private sector prevents jobs for Omanis at the existing location and in the private sector, therefore shrinking the employment base for Omanis. The premise being that the private sector companies tend to use an expatriate labour force to carry out their operations.

However, the findings of this research have proved the opposite. On Case Study 2, although 7 Omani staff were retired, the contractor initially recruited 8 Omani staff and under the recent contract extension the number was increased to 20. Likewise, on Case Study 3, 12 Omani staff were retired and the contractor recruited more than 32 in the first year increasing by 10% each year thereafter. Hence, the number of jobs "Contracting Out" projects have created for Omanis in the private sector, especially on Case Study 3, in comparison to job losses in the organization for Omanis is offset by a net jobs gain in the Private Sector. Therefore, 'Contracting Out' does not shrink the employment base for Omanis but it shifts jobs from the government sector to Private sector.

12.2.6 Overall Evaluation

In order to arrive at the overall effectiveness of "Contracting Out" the organisation's in-house services the effectiveness evaluation is completed by a comparison of the perceived advantages and disadvantages/risks identified in Chapter 6 (Stage 1 of the research), including those that were part of the effectiveness evaluation discussed above, with actual advantages and disadvantages based primarily on the findings from Case Studies 2 and 3. However, findings from Case Study 1 are also used, wherever possible, although the case study was not as thorough as the other two.

Table 12.2 shows a comparison of the perceived advantages with actual advantages for the three case studies.

Table 12.2 Case Studies Overall Comparison of Perceived Advantages with Actual

	Perceived Advantages	Actual		
		Case Study 1	Case Study 2	Case Study 3
a.	Cost Savings in operating costs.	Not in the initial contract	Yes	Yes
b.	Increased productivity and efficiency	Not evident	Yes	Yes
c.	Better quality of service	Not evident	Yes	Yes, but not in all areas
d.	Improvement in PPM	Not evident	Yes	Yes
e.	Reduce restricted practices	Yes	Yes	Yes
f.	One stop shop/single point responsibility	Yes	Not applicable	Yes
g.	Reduced management responsibilities	Yes	Yes	Yes
h.	Benefit from specialist expertise and resources available in the private sector.	Not evident	Yes	Not in all areas
i.	Better accountability	Unable to comment	Yes	Yes
j.	Less bureaucracy	Yes	Yes	Yes
k.	Prolonged life of assets due to efficiency in maintenance activities	N/A	Yes	Yes
l.	Shrinkage of organisation size	Yes	Yes	Yes
m.	Transparency in organisation responsibilities	Yes	Yes	Yes
n.	More detailed cost breakdown	Yes	Yes	Yes
o.	Better budgeting and improved planning	Yes	Yes	Yes
p.	Problems of maintenance is transferred to a third party	Yes	Yes	Yes
q.	Achieving Omanisation policy objectives.	No	No	Yes
r.	More job opportunities for Omanis	No	No	Yes

As can be seen from table 12.2, Case Study 1 was not successful in achieving all the perceived advantages and there are areas where the author has not been able to comment on due to limited data. On the other hand the more structured projects, Case Studies 2 and 3, provided more detailed data, and have been shown to have achieved the perceived advantages, apart from some secondary areas.

The only area where Case Study 2 did not achieve its objectives was Omanisation, where research has revealed that the number of Omanis employed by the contractor was very low. However, it must be stated that the recent two year contract extension obliged the contractor to provide 30% Omanis in the first year and 40% in the second year of

the extension. The author has found that the contractor has fulfilled his obligations in this regard, adding to the overall success of the project.

Case Study 3 was successful in achieving perceived advantages including Omanisation, apart from two areas. One area was the quality of service, which did not improve in all areas of the contractor's activities. The other area is the perceived advantage of specialist expertise, which was not evident in all areas of the contractor's activities. This area can be linked to the first area due to the quality of some supervisors and technical staff that the contractor initially employed on the contract.

On a similar basis to Table 12.2, a comparison of the perceived disadvantages with actual disadvantages for the three case studies is given in Table 12.3.

Table 12.3 Case Studies Overall Comparison of Perceived Disadvantages with Actual

	Perceived Disadvantages/Risks	**Actual**		
		Case Study 1	**Case Study 2**	**Case Study 3**
A	Social side effects	High	Minimal	Minimal and those effected are only slightly affected
B	Escalated service price at time of re-tendering	No re-tendering resulted in much lower price	No. Contractor agreed to reduce the price at time of extension	Not yet experienced
C	Resistance to change	Could not comment on due to lack of data	Some normal resistance that did not affect project execution	Some normal resistance that did not affect project execution
D	Security problems	Not reported	On the low side	Not reported
E	Probability of use and discard concept with regard to the defective parts instead of repairing.	N/A	Not evident	Not evident
F	Risk of selecting poor contractor leading to total failure,	Not evident	Has not taken place	Has not taken place
G	Risks at time of war as contractors' staff (expatriates) might decide to leave the country	Not experienced	Not experienced	Not experienced
H	Problem of quality control if no proper supervision is exerted	Unable to comment	No	No
I	End user's privacy might suffer.	N/A	Not reported	Not reported
J	Problem of supervision	Yes	Yes	Yes
K	Low Omanisation percentage and less training for Omanis	Yes	Yes on the original contract	Has not taken place. Stipulated Omanisation percentages have been fulfilled by the contractor

As can be seen from Table 12.3, the majority of the perceived disadvantages have not materialised. However, the disadvantages were greater on Case Study 1; the first "Contracting Out" project initiated by the organisation, and is reflective of the way the project was implemented. On the subsequent Case Studies 2 and 3 the majority of the perceived disadvantages did not materialise.

The one perceived disadvantage of "Contracting Out" that took place on all three projects was the problem of supervising and monitoring contractors' activities. A perceived disadvantage that took place on Case Studies 1 and 2 was the low percentage of Omanisation.

12.3 Comparison of Findings with Hypotheses

12.3.1 General

This section provides an examination of the hypotheses set for the research in comparison with the findings from the research overall and the three case studies in particular. The section also highlights the major findings and new findings in comparison with the findings of other researchers discussed in the Literature Review at Chapter 3.

Table 12.4 provides a brief comparison of the findings of all three cases studies with the hypotheses set for the research. The sections that follow provide a discussion of these under the main and three sub-hypotheses which are restated under each section for ease of reference.

Table 12.4 Comparison of Case Studies Findings with Hypotheses

Hypothesis	Case Study 1	Case Study 2	Case Study 3
Main hypothesis	The initial contract did not support the main hypothesis	This project substantially supported the main hypothesis	This project supported the hypothesis although quality was not better in all areas of contract
Sub-hypothesis 1	Documentation showed cost savings as main reason	The evidence from this project supports this hypothesis, although the need to improve operational efficiency was one of the major reasons	The evidence from this project supports this hypothesis
Sub-hypothesis 2	The project identified major implementation problems at pre and post contract stages.	Some problems recurred and the project added some additional problems	Some problems recurred and the project also added new problems of different nature
Sub-hypothesis 3	The initial contract did not support this hypotheses	The project has supported this hypothesis	The project has supported this hypothesis

12.3.2 Main Hypothesis

'Contracting Out' the organisation's in-house services to private sector companies improves cost-effectiveness, efficiency and quality in service delivery.

The research provided sufficient evidence to make the examination of the main hypothesis possible. This hypothesis aims at evaluating the overall effectiveness of "Contracting Out" the organisation's in-house services based on the findings from the research.

Case Study 1 did not support the main hypothesis set for the research. However, it became evident during field research that the subsequent competitive tender achieved the cost saving element and that both Case Studies 2 and 3 have overall supported the main hypothesis. This strongly supports the conclusion that competitive tendering greatly influences the validity of the hypothesis.

Case Study 2 clearly showed that "Contracting Out" the organisation's O & M services has been a cheaper alternative to the in-house direct provisions, the services were produced more efficiently and the service quality, beyond any doubt, was better after "Contracting Out".

Case Study 3 also showed that "Contracting Out" the maintenance services has been cost effective; although the cost savings were less than anticipated; and the services were efficiently produced, after "Contracting Out". However, the quality of service although was found to have improved overall, in some areas the quality was not improved.

12.3.3 Sub-hypothesis 1

The rational for 'Contracting Out' the organisation's in-house services rests primarily on the anticipated cost savings.

The aim of sub-hypothesis 1 has been to examine the motivating factors (reasons) for the organisation to consider "Contracting Out" in order to arrive at the main driver for such move. This sub-hypothesis is examined mainly on the basis of findings from Stage

1 of the research presented in Chapter 6. However, evidence from the three case studies was used, wherever possible.

The research findings in Chapter 6 showed that the organisation has been motivated by many factors to consider "Contracting Out" its in-house services. However, the following are the four major motivating factors based on findings of Stage 1 of the research:

- The need to reduce operating costs in light of the budgetary constraints and further annual budget cuts recent years have witnessed.
- The need to improve the efficiency of its operation and maintenance activities that have been affected due to problems of manpower inefficiencies, lack of qualified skilled Omani staff, lack of efficient maintenance programmes and high production costs resulting from high manpower levels in some maintenance activities.
- The organisation has to conform to current government policy of encouraging private sector participation in the provision of government services.
- The need to improve the quality of services provided to its end-users.

Stage 1 of the research has also identified other reasons for "Contracting Out". However, despite the many motivating factors and reasons for considering "Contracting Out", the main rationale has been the need to achieve savings in the current operating costs in order to be able to operate and maintain the additional facilities being added to its responsibilities. The other three important reasons were; to improve efficiency; to provide better service to end-users, and, to conform to government directives of encouraging private sector participation in the provisions of government services.

Examination of data for all the three case studies under Stage 2 of the research has also supported the above findings. Research revealed that the main reason for the organisation to consider "Contracting Out" has been driven by the need to affect savings in the current operating costs, although the need to conform to government directives among other reasons played a role.

On Case Study 2, for example, when the transfer of Omani staff to the contractor was not possible, a decision was almost made to shelve the project as the feasibility study showed that no cost savings were achievable if all those staff were retained on the same facilities. Moreover, the decision not to contract out the project in the south, which was part of Case Study 2 tender, was made mainly on the basis that the project was not economically viable, as the feasibility study showed that the cost of producing the services in-house was cheaper than "Contracting Out".

Also, for Case Study 3, despite the many reasons stated by the respondents it became apparent that the main reason for 'Contracting Out' Case Study 3 was the achievement of cost savings in operating costs.

Research revealed that for Case Study 1, the cost of maintaining the plant and machinery was very high due to the expenditure on fuel, spares and manpower. Hence, the overall efficiency of service was low and the cost of maintenance per KM was high in comparison to the commercial rates. This was coupled with the high cost of setting up maintenance teams, and hence camps, at a wide range of locations all over the country. All of this necessitated a search for an alternative method of procurement in order to achieve cost savings, and "Contracting Out" was considered the most viable option.

From the above it can be argued that this research has clearly supported the sub-hypothesis 1 that the main rationale for "Contracting Out" the organisation's in-house services has primarily been the consequent cost saving.

The findings from this research agree with those of Seidenstat (1999b), Hodge (2000), Reeves (1995) and Miranda and Andersen (1994), who argued that although many reasons have been cited for 'Contracting Out' government services, the major motivating factor has been the potential cost savings that can accrue as a result of "Contracting Out".

12.3.4 Sub-hypothesis 2

Certain problems are inherent and identifiable in the implementation process of the organisation's contracted out projects at the pre and post contract stages.

This sub-hypothesis aimed at establishing the problems that take place while implementing "Contracting Out" projects. All three projects have provided valuable findings in relation to real life problems and difficulties that are encountered during the different stages of implementing "Contracting Out" projects.

The main problems identified in relation to contract documentation are vagueness in contract terms and scope of works that have led to disputes and the insufficiency of the set minimum manpower requirement.

The main problems in relation to procedures were discussed under the different stages a particular project goes through. At the pre-tender stage the main problems were lack of awareness from the concerned staff on "Contracting Out", uncertainty on the fate of effected staff and the absence of clear assessment of the existing position and the basis on which to determine which service to contract out. The main problem at the feasibility stage is a lack of accurate data leading to inaccurate cost saving calculations. At the tendering stage, procedure problems resulted from a lack of transparency of tender evaluation criteria and lack of uniformity of technical evaluation. The main problem at contract awarding stage is the delay in the decision to award "Contracting Out" projects due to shortfalls in procedures for feasibility studies, tender evaluation and the negotiation process.

The main problems during the mobilisation stage include the lack of procedures for handing over, insufficiency of mobilisation period, problems with contractor's staff selection and the delay in issuing security gate passes.

The main problems during the operation stage are related to contract management and supervision, contractual disputes, Omanisation, security implications, contractor's performance, and resistance to change.

The findings from this research, although typical of those discussed in the literature review at Chapter 3, add more detailed findings in relation to lack of procedures for the management of "Contracting Out" at the different stages of implementation. Some of the problems identified in the literature did not take place on the three case studies. The problem of opposition, as a result of effects of "Contracting Out", on existing staff has not been a major impediment due to the military nature of the services, and the receivers of the services not being members of the general public.

The research provides new findings in relation to Omanisation and security implications in relation to the organisation.

12.3.5 Sub-hypothesis 3

'Contracting Out' the organisation's in-house services reduces operating costs and improves efficiency without affecting the quality of the service and the in-house staff currently carrying out the services.

The aim of this sub-hypothesis was to evaluate the effectiveness of "Contracting Out" the organisation's in-house services. This sub-hypothesis has been examined based mainly on the effectiveness evaluation of Case studies 2 and 3; however findings from Case Study 1 are highlighted wherever possible. Each project was examined in relation to the four effectiveness elements developed for the evaluation framework.

The findings from Case Study 1 did not fully support this sub-hypothesis as all the four effectiveness elements were not achieved, especially on the original single source contract. On the other hand, the findings from Case Study 2 supported the sub-hypothesis as all the four effectiveness elements were achieved. The same could be said about Case Study 3 where all the four effectiveness elements were achieved.

The research findings on the reasons for cost savings are similar in nature to those reported in the literature review. They show that the cost savings are the result of using fewer people for the same job, lower salaries to both Omanis and expatriates compared with those paid by the organisation (This agrees with the findings of LopezDe-Silanes et al, 1997). Better utilisation of resources by contractors and technical efficiency also played a role (as stated by Cubbin et al, 1987). However, the main findings arising out of this research are that the cost savings vary from one project to another depending on the type of services. This corroborates with the earlier findings of Hodge (2000) discussed in Chapter 3, although this research has shown that the percentages of cost savings are higher than those identified by Hodge (19.5% and 27% compared with 6-12%). This research has found that the cost savings are mainly in the cost of manpower and its associated costs and that the higher the number of staff displaced by 'Contracting Out' the higher the expected cost savings. The affected manpower on Case Study 3 was

more than that of Case Study 2 hence; the cost savings were more on Case Study 3. It also showed that the efficient operations of the contractor leads to additional cost savings in other costs; like spares, consumables etc; which remained under the responsibility of the organisation, as was the case on Case Study 2. Another new finding is that the cost savings are significantly less in the first year of contract operation, as was evident on Case Studies 2 and 3, since the first year can be considered a transitional year, where problems took place in relation to planned affected manpower deployment and additional costs in relation to the vagueness of the scope of the works and other contract terms that necessitated adjustment of the year 1 cost savings. What this research has shown is that for the anticipated cost savings to take place affected staff should be transferred to productive posts; and that Omani staff retirement, and expatriates contract termination are made as assumed by the feasibility study.

The efficiency element of the research findings have shown that, in the context of the research, the private sector is more efficient than the public sector. This research confirms the findings of earlier research discussed in the literature review at Chapter 3 that efficiency is the result of the more efficient utilization of resources like manpower, material, equipment etc (e.g. Cubbin et al, 1987; Savas, 2000). However, a finding that is more specific to the working environment in Oman, is the fact that private sector companies work longer hours compared with the public sector which also plays a role in improving productivity and hence efficiency (the organisation works 6.5 hours a day while contractors' work 2 hours in addition to their standard hours of 8 hours).

The findings on the quality element in this research agree with findings of Domberger et al (1995), Reeves (1995), Domberger and Hall (1996), Industry Commission (1996) and Moore (1999) discussed in Chapter 3. However, what has been evident from this research is that the quality of service varies not only from one project to another as found by other researchers like Pack (1989) but also depends on the nature of facilities (O & M facilities in comparison with MSB&C facilities). In addition, the quality of contractor's staff, resources and performance of the contractor have a major impact on the quality of service. Moreover, the difficulty of measuring service quality varies from one type of activity to another. On Case Study 2 it was easier to measure quality, as facilities like power and water plant performance data was easily identifiable in contrast to Case Study 3 where the measurement of quality has been mainly subjective.

This research found that "Contracting Out" did affect the organisation's in-house staff, however, the effects have been minimal especially on Case Studies 2 and 3 which agree with the findings of Moore (1999) and does not lend support to the findings of Ascher (1987), Kettle (1993), Cope (1995) that have argued that "Contracting Out" leads to very bad effects on existing in-house staff. A major finding from this research is that as the organisation has become more experienced with implementing 'Contracting Out' projects the side effects on its existing staff are reduced. The criticisim that 'Contracting Out' shrinks the employment base at both the government organisation and the private sector is not supported by this research, which found that more jobs are created for Omanis in the private sector in comparison to job losses in the organisation. Therefore, jobs have been transferred from the government sector to Private sector.

12.4 Difficulties Encountered

This research is the first of its kind in the Sultanate of Oman and some related difficulties were encountered in its execution.

One of the first difficulties faced was the problem of finding literature on the subject of "Contracting Out" in Oman, only one or two items of literature briefly referenced "Contracting Out" in the Omani context. This required the author to use the library facilities at universities in the United Kingdom extensively and to intensify the use of the internet to search for literature on the subject.

Some problems were also encountered during Stage 1 of the research that has affected the outcome of the research, especially for the data collection on Case Study 1. The first one was the difficulty of finding sufficient data on the said project since the project was the first "Contracting Out" project in the organisation dating back to 1993 and the project was considered highly sensitive. Secondly, by the time the exploratory interviews were underway some of the knowledgeable people had already left the organisation and others were on leave. The latter forced the author to rearrange some of the interviews for another convenient time after the prospective interviewees returned from leave.

A major problem encountered in this study, especially for Stage 2 of the research was dealing with confidential data. The data used for this study contained commercially confidential and sensitive financial figures. The author, noting the problem of data confidentiality and the restrictions imposed on the use of data, had developed a base line calculation method for the cost comparisons before and after "Contracting Out". The difference in cost between before and after figures has been presented by a percentage increase or decrease relative to a pre-"Contracting Out" baseline without having to refer to any financial data. To address the confidentiality of data and the restrictions imposed on its use, the author was issued with a confirmation letter from the organisation's CEO stating that the research has been based on official data.

One of the difficulties encountered during the in-depth interviews at Stage 2 of the research was that some questions had to be translated into Arabic during the interview to make them understood to interviewees. This meant that double the time had to be spent on writing up interviews transcripts hence, it was very time consuming.

The author had to travel to the projects sites quite frequently to accomplish the requirements of this research. This has put extra burden on the author bearing in mind the busy schedule of work, hence he had to programme all the in-depth interviews and collection of costing data during his annual leave periods.

One of the difficulties faced during the collection of data for the effectiveness evaluation stage was the difficulty of finding production and quality of service data before "Contracting Out". The author had to exert extra efforts in collecting uncollated material and working out actual production units and quality of service indicators before "Contracting Out" and in some cases had to rely on mainly subjective views of the organisation supervision team members.

CHAPTER 13

EVALUATION AND REVIEW

Chapter 13

EVALUATION AND REVIEW

13.0 Introduction

This chapter provides an overview of the research in terms of the lessons learnt and the factors that can lead to the success of "Contracting Out" projects. The chapter also puts forward some recommendations to improve the present "Contracting Out" procedures and system at the organisation, based on the research findings. In essence this chapter addresses the objectives (iv) and (v) of the research, namely, to identify the success factors of privatisation through 'Contracting Out', and to recommend improvements to the present 'Contracting Out' procedures and system at the organisation.

13.1 Evaluation

13.1.1 Overview

Based on the results in this research the overall effectiveness of "Contracting Out" varied from one project to another, as discussed in Chapter 12 (*Discussion of Findings*). While overall effectiveness was not achieved on Case Study 1, the MRAH project, it has been clearly established on Case Study 2, the O & M project. On the other hand, Case Study 3, the MSB&C project, was effective in achieving the cost saving, efficiency and minimal effects on existing staff objectives, but did not fully achieve the desired quality. What can be deduced from the results is that overall "Contracting Out" the organisation's services was successful in achieving cost effectiveness, which was the main objective of the organisation, although the initial single source contract for Case Study 1 was not cost effective. The efficiency element was also achieved on the three projects although it was not evident on the initial initiative of Case Study 1. The quality of service element was subject to inconclusive overall findings; while evident in Case Study 2, the other Case Studies did not provide concrete conclusion of improvement post "Contracting Out". In terms of the effects on existing staff, the research has shown that consequential effects were reduced as the organisation became more experienced

with "Contracting Out". Case study 1 had significant side effects, while they were shown to be minimal on Case Studies 2 and 3.

This research has established that effectiveness, i.e. the success of "Contracting Out" projects in meeting their objectives, is dependant on certain elements that are necessary for success. Each of the three Case Studies identified some lessons and success factors.

Case Study 1 provided the organisation with valuable experience on the implementation of "Contracting Out" projects. The lessons learnt from Case Study 1 prompted the organisation to attempt the incorporation of such lessons into subsequent major "Contracting Out" projects, Case Studies 2 and 3.

A more structured approach was followed on Case Study 2, which was implemented as a pilot project by the organisation in the field of operation and maintenance services. However, some problems were encountered in implementing the project at Case Study 2 due to the different nature of the project and with different types of facilities and services being contracted out from those in the project at Case Study 1. Nevertheless, this provided additional lessons that were used in implementing Case Study 3.

Case Study 3 exploited the lessons learnt from the two earlier case studies, and provided new lessons. Some of the problems faced in the earlier projects recurred due to the differing nature of the services and facilities included in its scope. A factor that played a role in Case Study 3, was that the maintenance services had to be provided to an old camp with facilities scattered over a 8.14 Km2 site with more than 15 varied clients.

13.1.2 Lessons Learnt and Success Factors

The following paragraphs detail the important lessons and success factors for the implementation of "Contracting Out" projects identified in this study.

Top Management Commitment

Top management commitment has proved to be one of the most important success factors for implementing "Contracting Out" projects within the organisation. On Case Studies 2 and 3, top management commitment through out all stages of the projects played a role in resolving problematic issues faced during implementation and reduced the consequences of in-house employee resistance to the move. The organisation was very successful in protecting the interest of its in-house employees on both projects because the organisation's Chief Executive Officers took a very positive role in ensuring maximum flexibility in the deployment of affected in-house staff to other locations. This minimised, as far as possible, the adverse social and financial impacts on staff.

Involvement of Concerned Parties

Involving all concerned parties at all stages of the project, especially at the pre-contract stage is a necessary ingredient for successful implementation of 'Contracting Out' projects. Such an involvement is required whether in assembling the scope of work or in calculating operating costs, with the aim of arriving at realistic cost savings for the project. Involvement of all the stakeholders from the outset is necessary to avoid resistance to change, delays and difficulties in project execution. Research revealed that such involvement of concerned parties was absent on Case Study 1. On Case Studies 2 and 3 this issue was given greater consideration, leading to better results. There remains the opportunity for further improvement by way of a more structured involvement of the different parties involved in the process.

Using Accurate Data for Feasibility Study Calculations

In order to arrive at accurate and realistic cost savings figures, the feasibility studies have to be based on accurate data. Hence, the decision to contract out the particular in-house task could then be based on valid and informed data. There was no proper feasibility study prepared for Case Study 1 which led to unrealistic expectations of cost savings that did not materialise in the initial single source contract. Inaccurate data also played a role in eroding some of the anticipated cost savings on Case Studies 2 and 3.

Demonstration of A High Degree of Sensitivity in Dealing with Affected Staff

The lack of thorough assessment and proper planning of the fate of the Omani staff, affected by 'Contracting Out' the particular services, led to negative effects on the existing Omani staff in Case Study 1 and also on cost and efficiency prior to changing from in-house operations in Case Studies 2 and 3. Careful consideration is required to protect the interest of the existing staff and in maintaining established operational efficiency prior to "Contracting Out".

Definition of Final Product Specification

The final product specification must be clearly defined in the contract documents. Contract documents must contain extensive coverage of all required contract terms, scope of work and contract administration procedures. This research has shown that vague scope provisions and contract terms, on Case Studies 1 and 3, led to contractual disputes between the parties during contract execution and resulted in the organisation incurring additional expenditure.

Competition

Case study 1 confirmed that competition is an important factor to selecting a suitable contractor, and in securing a reasonable cost saving. One of the main factors for the poor results on case study 1 was the fact that the initial initiative for the project was not subjected to competition at tender stage. When the same services were subsequently subjected to a competitive tender the results improved. The subsequent two Case Studies also used competitive tendering which meant that prices submitted reflected the market value of "Contracting Out" services.

Case Study 1 showed that subjecting expired contracts to re-tendering, to benefit from competition, is a preferred option.

Early Appointment of the Contractor

The early appointment of the contractor is very important to ensure the effective hand over followed by a smooth transitional period. Unnecessary delays in security gate passes for the contractors' staff etc. can be avoided as the parties can start planning together early in the process. The early appointment of the contractor was one of the reasons for the success of the transitional stage of Case Study 2.

Teamwork, Flexibility and Co-operation between the Parties

Amongst the main elements for the success of Case Study 2 are flexibility and the teamwork approach that was developed between the organisation's supervision team and the contractor. Such a teamwork approach was evident in resolving all the difficulties that were faced during contract execution, although both parties had focused on the contractual provisions in managing the project. The contractor's success and good performance resulted in the organisation extending the contract for another 2 years. This provided an incentive to both parties as it was perceived as a "win-win" situation. Such a spirit of teamwork and co-operation was lacking in Case Study 1, as the relationship was adversarial, which led to disputes and difficulties in project implementation. It was also evident that such a teamwork approach was lacking initially on Case Study 3. The relationship was also initially adversarial especially at some sections of the maintenance activities. The contractor's co-operation was not up to the organisation's supervision team expectations, and was made worse due to the lack of flexibility and appreciation of the contract requirements by the contractor's staff.

Contractor's Capabilities and Expertise

The contractor's capabilities and expertise are necessary for success. The contractor's capabilities and experience played a role in the success of Case Study 2. The contractor's resources, technical skills and well structured management system helped to overcome many transitional problems faced during the initial stages of contract. This resulted in a successful project and additional cost savings to the organisation in areas still under its responsibility. On the other hand, one of the elements for the lack of

success of the initial initiative of Case Study 1 was the below standard performance of the contractor. The same could be said on Case Study 3 where the contractor's performance in some areas of maintenance activities was questioned at the early stages of the contract. This was due to the quality of some staff the contractor initially employed, and resulted in problems with the quality of service in those areas.

Efficient and Effective Contract Supervision

Efficient and effective contract supervision is a necessary ingredient for the successful implementation of 'Contracting Out' projects. The research showed that in all three Case Studies problems were faced in supervising and monitoring contractors' activities due to the lack of contract management skills of the organisation's supervision team. For the contract supervision to be effective, the supervision team should be adequately staffed and contractually and technically qualified and experienced to supervise and monitor the activities of the contractor. The supervision team can greatly benefit from receiving training in relevant aspects of contracts management.

Contract Terms Should be Clear on Omanisation

A major lesson learnt from the three projects studied was that if the project's contract documents do not specify precisely the contractor's obligations with regards to Omanisation, it will not lead to achieving national Omanisation objectives. The research showed that Omanisation was not achieved on the earlier two projects, Case Studies 1 and 2; because the contract documents did not obligate the contractors to provide prescribed percentages of Omanisation. In contrast, Case Study 3 was successful in achieving better Omanisation, as the contract documents included set percentages of Omanisation, linked to penalties for non-fulfilment.

Additional Benefits Can Accrue From the Process

The organisation has been successful in accruing additional benefits by "Contracting Out" its in-house services. The following paragraphs detail these additional benefits.

One of the very clear benefits of 'Contracting Out' within the organisation is the elimination of 'hired labour' problems. The organisation had been regularly hiring additional temporary staff in an attempt to remedy shortages in skilled and unskilled staff for the operation and maintenance services. These contracts were not of overall benefit to the organisation and occupied a disproportionate amount of managers' time and were a drain on its financial resources. Once the in-house services in Case Studies 2 and 3 were contracted out, such contracts were no longer required, and the problems associated with hired labour contracts subsequently disappeared, at least in the units covered by these two case studies.

One of the reasons for 'Contracting Out' has been the difficulty in finding Omanis for specialised jobs in the O & M field. Before 'Contracting Out' there were shortages in other locations within the organisation and the majority of posts were occupied by expatriates from the Indian Subcontinent. By 'Contracting Out' the organisation has benefited from retaining the existing staff, from contracted out locations, to fill vacant posts. This has helped address the problems of over working aged staff in some of its operations, and Omanisation of some posts held by expatriates. There have also been economic benefits to the organisation as a result, as it did not have to recruit local staff and provide them with training. This gave a 'hidden additional savings' to the announced cost savings as a result of 'Contracting Out' the particular service. It follows that 'Contracting Out' has proved to be an effective way for the organisation to achieve its Omanisation targets. Additionally, 'Contracting Out' the organisation's services has helped the Omanisation process in the overall country by creating some jobs for Omanis through specifying certain percentages of Omanis in the contract documents, especially on Case Study 3. The real benefits of this will however, be evident in the long term.

Another benefit of "Contracting Out" to the organisation is the introduction of computerised maintenance programmes into its operation and maintenance activities. 'Contracting Out' has stimulated the adoption of improved technology and management initiatives in the organisation. This has meant that the organisation has been brought to a higher professional level of management. These new technologies can now be developed in other areas where services are still carried out in-house, hence improving the efficiency of the operation and maintenance services without actually "Contracting Out".

13.2 Recommendations for Improvement

13.2.1 General

This research identified many implementation problems in relation to the "Contracting Out" process in the organisation. The research has also shown that there is further scope for improving the present "Contracting Out" system. This section puts forward a set of recommendations for improving the present system and procedures. The recommendations are given in relation to four main headings, namely; tender and contract documentation, procedures, mobilisation stage, and operation stage. This was considered necessary to maintain consistency with the findings from the implementation problems at Chapter 12. A final subsection is provided under this section for general recommendations.

13.2.2 Tender and Contract Documentation

The following is recommended to improve the present tender and contract documentation:

- The tender documents should have clear and transparent tender evaluation criteria. These criteria should show contractors how their bids are going to be evaluated and what are the important issues that they should concentrate on when preparing their offers.
- The scope of work should be clearly drawn by due consultation with the relevant in-house departments. If a decision is to be made to have the contractor responsible for the supply of materials then this should be clearly quantified and identified in the scope of work. A Bill of Approximate Quantities would prove useful in projects similar to Case Study 3.
- The requirements of the computerised PPM programme should be clearly stated with examples of output or reference to a system already established on other "Contracting Out" projects within the organisation.
- The minimum manpower requirement should be carefully set to reflect actual scope requirements. Certain commercially known thresholds and coefficients related to

manpower productivity can be used to arrive at a realistic judgment. Tenderers should be encouraged to submit alternative offers of proposals based on their own judgment of manpower requirements, and to justify significant differences.

- The penalty provisions should be clearly stated in the contract documents. Penalties should be related to the number of complaints received from end-users. If end-user complaints exceed a certain threshold level, the form of agreement should dictate a deduction from contractor's monthly payment for that particular month. Similarly, incentive clauses should be incorporated into the form of agreement. An example of this is that incentive for good performance would be an automatic renewal for an additional year, or financial incentives, possibly a percentage of projected savings. This could be similar to that employed in target cost contracts.

13.2.3 Procedures

Establishment of a Privatisation Department

The major problem that this research identified was the lack of procedures and guidelines for "Contracting Out" projects due to the absence of a single point department responsible for "Contracting Out" projects at both pre and post contract stages. The absence of such department led to communication problems, lack of full co-operation and delays to the whole "Contracting Out" process in the organisation.

The volume of the organisation's in-house services contracted out, and those under study for possibility of "Contracting Out", justifies the establishment of a privatisation department. This department should have single point responsibility for all pre and post contract work related to "Contracting Out" projects, that should develop all necessary guidelines and procedures for the process. This department should be the focal point at both pre and post contract stages for the process, augmented by support from relevant departments of the organisation.

Assessment of Present Situation

Once a decision is made to study the possibility of "Contracting Out" certain services or unit, an assessment of the present position should be carried out. Besides calculating the current operating costs, this assessment should include the following:

i) Work load indicators that should measure the amount of work done (outputs) by the present in-house team, e.g. number of daily repair demands received, completed and pending.

ii) Efficiency indicators of the present service that should measure relationship between outputs, at (i) above, as a ratio of inputs (e.g. number of staff, equipment, administrative costs).

iii)Quality of service indicators that should measure things like number of complaints, and end-users service satisfaction level.

This assessment will give a clear idea on where the service stands at present and should provide a baseline of the current performance level to which key performance indicators can be stated in the tender/contract documents and to which post "Contracting Out" comparisons can be made. The assessment of the current situation could be carried out by the newly established Technical and Quality Department, and may include an independent party, such as the Ministry's Internal Audit Department, until clear guidelines are set.

However, it is important before such an assessment is done that the service/camp to be contracted out is carefully selected, so that tangible and realistic improvements could be feasibly evaluated. Also, that these benefits outweigh all the costs of implementation, and are not of marginal benefit.

Transparency and Awareness

Much of the problems related to resistance to change and effects on present in-house staff can be eliminated by having a transparent process at all stages. This transparency can be achieved by keeping all stakeholders, at all levels, informed of what is going on. The following paragraphs explain this at pre and post contract stages.

At the pre-contract stage; the organisation's board of directors, in-house staff and end-users should be informed on why the decision has been made to contract out the particular service, what objectives have been set and what benefits are expected. Before "Contracting Out", the board of directors and end-users should be informed on the current operating costs, the most realistic submitted tender figure, and the anticipated cost savings. An important issue at this stage would be to make the in-house staff affected by the move aware of what is going on and what the options available are. Communication has to be established at two stages. Stage one is to establish communication with the affected in-house staff at an early stage, once a decision is made to study the possibility of "Contracting Out". The aim of this should be to brief them on the move, why the organization has opted to contract out the particular services and what might happen to them. This should be done through the department concerned at this stage, (Planning Office or proposed Privatisation Department) briefing the Director with responsibility for the affected unit. The director concerned should then brief the affected unit Senior Superintendent who in turn should brief his subordinates and the maintenance team. At this stage the briefing is only for the purpose of informing the affected staff and their managers of the move. The second stage should involve briefing by Personnel Department to the Director concerned, of the proposed potential deployment, in a similar manner to the above. The purpose of this would be to inform them of what is likely to happen to the affected staff. Staff should be allowed to comment on the proposed deployment. In this manner communication would be better and quicker and there will be a chance of interaction between the teams and their supervisors. The effects of "rumours" and low staff morale can be eliminated, or at least reduced.

At the post contract stage, transparency can be maintained by showing the actual results of the contracted out service. Data on quality of service and actual production indicators should be made available to the organisation's board of directors, and clients.

In this manner all the stake holders would be fully informed, and resistance to or unrest about "Contracting Out" will be reduced.

Feasibility Studies

The following is recommended in relation to the feasibility studies:

i) Feasibility studies should be prepared on the basis of calculating the likely private sector cost in-house before putting the project out to tender. The likely contract price can be determined in-house before requesting formal bids from contractors, through the use of previous similar contract prices from in-house cost data, or from other government departments' comparable data for similar services. This estimated cost can then be compared to the current operating costs to assess project feasibility. This has been implemented on projects undertaken after Case Studies 2 and 3, based on the author's recommendation, and proved to be successful in avoiding delays in awarding the contract and reducing the contractor's abortive work through canceling tenders.

ii) In order to have a clear picture on the current operating costs, a costing system should be devised whereby costs are properly maintained and monitored for at least one year before "Contracting Out" the intended services/unit.

iii)For the anticipated cost savings to take place feasibility study assumptions in relation to affected staff should take place as intended.

iv)Thorough and complete studies should be carried out on the future of affected staff before a particular project is put out to tender. Accurate data should be used on the number of staff presently carrying out the service, the number of plant/equipment and vehicles used by them. Actual expenditure of materials, not budget allocations, should be used in calculating actual operating costs.

v) There should be proper co-ordination and co-operation between the department responsible for carrying out the feasibility studies and other departments like personnel and finance departments.

Tendering

In addition to the tender evaluation criteria discussed under tender documentation improvements above, the following is recommended in relation to tendering procedures:

i) For each project, a Tender Evaluation Committee should be established to evaluate the bids. The committee should comprise a chairman and at least two other members, depending on the size and nature of the contracted out work, involving the present in-house supervision team members. The committee members should have the necessary expertise and skills to evaluate bids.

ii) Tenderers pre-qualification exercise should be undertaken to short list capable contractors for the proposed work, especially for services that are being contracted out for the first time. Pre-qualification may not be undertaken where services are not being contracted out for the first time and where sufficient knowledge is available on capable contractors for the proposed work.

iii) To avoid poor tender submissions and their associated problems, selective tender action should be followed for all "Contracting Out" projects, instead of floating them in open tenders.

iv) In order to improve the present tender clarification process the following is recommended:

a) After tenders have been invited and prior to a site visit, a meeting should take place with all the tenderers to explain the scope of work and address any unclear issues (i.e. Briefing).

b) After the site visit, allow the tenderers sufficient time to evaluate what they saw during site visit in relation to what was stated in the tender documents.

c) Arrange clarification meetings (debriefing), making sure that all points (question and answer) are documented that can be issued to all the tenderers, as tender addendums, at a later date.

13.2.4 Mobilisation Stage

The following is recommended to improve the process at the mobilisation stage:

i) Sufficient up front planning for the transition phase should be made. The following steps are important in such planning:

a) Clear handing over procedures and guidelines should be put in place for handing the facilities, equipment, and necessary data over to the contractor.

b) The status of the facilities at the time of hand over should be clearly defined to avoid delays in taking over.

c) Adequate transfer of knowledge on the facilities and organisation's procedures should take place as early as possible during mobilisation stage.

d) Weekly progress and transition review meetings should take place through out the first year of the contract. Attendees should include, in addition to the supervision team members, a senior officer that has the capability of making decisions for the organisation. The department that has prepared the scope of work and were involved in making the "Contracting Out" decision should remain involved as a guide in the transition year and should be familiar with the project status and what needs to be done if things are not progressing as intended.

ii) The mobilisation period should be set at 60 days, but it can be reduced to a lesser period by distinguishing between the different projects; on the basis of their extent, scope, and area of services. Mobilisation period/take over issues to be properly planned well before decision to contract out is made. Necessary amendments should be made to the mobilisation/take over clauses in scope of work depending on the type of project and the extent of the facilities involved in the particular project.

iii) Establishment of clear written guidelines and procedures for contractors' staff selection process is considered important. Without such guidelines and procedures there will be the risk of selecting the wrong people for the contracted out services. As a consequence, rejecting unfit people during the contract stage and asking the contractor to provide replacements, would cause delays to project activities or might even disrupt the maintenance services system, which is contrary to the ethos of 'Contracting Out'.

iv) In order to overcome the problem of delay in issuing security gate passes, security departments should be involved once the decision is made to contract out the particular in-house service. The requirements for security gate passes should be made clear to them at this stage. The contractor should be introduced, at an early stage, to the requirements they have to satisfy to get the security gate passes sanctioned.

13.2.5 Operation Stage

Contract Supervision and Monitoring

i) Once a decision is made to contract out a service, the present in-house supervision department should be restructured to reflect the new process, making sure that all concerned sections are covered by a sufficient number of supervision staff and that all activities in the contract are covered under the same contract office.

ii) The supervision team should be made up of members of staff familiar with contract management i.e. with requisite technical and contractual skills. If a decision was made to appoint the same supervision team of the in-house services then the concerned staff, after excluding those who were against the move, should be trained in project/contract management, well before the contract start date. Training arrangements should be made with external specialised institutions or by undergoing in-house on the job training in other departments of the organisation responsible for projects/contracts management. The aim should be to develop a core of experienced staff with the necessary expertise. The organisation's recruitments and training programmes should be oriented toward developing a set of skills for effective contract management.

iii) A comprehensive set of job descriptions should be developed for the supervision team members, (which was not done for all the projects studied). This job description should detail the duties and responsibilities of the contract supervisors in monitoring contractor's performance.

iv) The supervision team should be provided with monitoring procedures for monitoring the service provided by the contractor. Service monitoring can consist of complaint monitoring; examination of contractor's work records; scheduled field observations; unscheduled field inspections; inspections triggered by end-user complaints. End-user surveys can also be used to monitor contractor's performance by measuring their satisfaction with the service provided (similar to that done by the author on the MSB&C project). An extensive utilisation of the computerised PPM programmes developed by contractors should be an important element of monitoring.

Contract Review Committee

A committee should be established to carry out a formal review of the contract terms and scope of work provision for the purpose of fine tuning, based on issues arising during the transitional phase. Such a review should take place 6 months from the contract start date, as the case studies have shown that transitional problems are likely to arise during this period of contract. If modifications are required, then variations to the original contract may be made through mutual agreement between the organisation and the contractor.

Omani Staff and Omanisation

A major impediment and a source of concern in relation to "Contracting Out" within the organisation are the side effects on the existing in-house staff. The following two recommendations are put forward for the same:

i) To date, the organisation has managed to absorb the displaced staff in vacant posts and in Omanising other posts in other locations of the organisation. However, the time will come when this might be difficult. The organisation should seriously look for alternative options in relation to existing in-house staff. It is believed that a viable option for the Omani staff would be to transfer them to the company with the same salaries and benefits, as was the original intention on the O & M project at Case Study 2, or negotiate other mechanisms for an efficient transfer to the company. Although some might believe that the cost of tenders will go up and that the project will not be viable, Case Study 2 proved the opposite. In addition, the private sector companies have demonstrated their willingness to deal positively with the issues of the organisation's existing Omani staff. An interesting issue in Case Study 3 was that negotiation with the successful company resulted in that company agreeing to assimilate some of those Omani staff that were retired, and even those who had requested an early retirement. Although this did not eventually take place, it does show the willingness of private sector companies. The advantage of this is that the particular member of staff will be retired from the organisation and will receive his retirement monthly pay and entitlements, and in addition the salary the company pays. In addition to these economic benefits, the affected staff will not have to change work place or work times

so will not be socially affected. There are also some benefits to the organisation and the company. The organisation will achieve job security for its in-house staff, and the company will benefit from the experience and familiarity of the assimilated staff with nature of the services and the site.

ii) The tender documents for Case Study 3 were successful in achieving the set targets of Omanisation. Therefore, the same set percentages of 30% in year one followed by an increase of 10% in the subsequent years should be maintained, at least for the time being. However, two issues need to be addressed. The first one is related to extended contracts. Contractors should not be asked to have an increase of 10% during years of extension, due to the lack of qualified Omanis at present time. Perhaps an increase of 5% in each year of extension is more achievable. The second issue is that when re-tendering results in a new contractor being appointed, the incoming contractor should start with a minimum of 40% Omanis, instead of the present 30%, followed by a 10% increase in the subsequent years. The incoming contractor should be encouraged to negotiate the employment of outgoing contractor's Omani staff. The contract documents should also oblige contractors to employ Omanis in a mix of skilled and unskilled jobs. Setting certain percentages of skilled Omani staff linked to penalties for non-fulfillment is important to secure the employment of Omanis in skilled jobs.

Security

Security is a risk requires that the organisation implements transitional arrangements so that consequences are minimised. Although the consequences of security risks have not materialised to a great extent on the three Case Studies, it is of a paramount importance, due to the sensitive nature of the services, that it should be given utmost attention. The following are recommendations in relation to security:

i) A security risk assessment should be carried out for the different areas an external contractor has to operate. Where the risk of security exposure proves to be high, work on such facilities/camps should be retained in-house on a similar basis to the decision taken to retain responsibility for the maintenance of Ammunition Depots, in Case Study 3, when the decision was made to contract out the maintenance services.

ii) Contractor's employees should be carefully selected and should pass all necessary security checks of the organisation and other government security departments.

iii) Issue ID cards with photographs to all contractors' permanent staff, similar to that implemented on Case Study 3, to be worn on overalls. (already implemented)

iv) No employees other than those directly employed by the contractor should be permitted to work.

v) Spot checks should be carried out by concerned in-house and external departments from time to time.

vi) Where the contracted out service involves the transfer of information to the contractor, the minimum necessary information should be given, to reasonably enable the contractor to execute the work.

vii) Although the terms of contract address the confidentiality of information, it is important that such provisions, and their likely consequences, are boldly highlighted.

viii) Some of the security risks can be reduced by not allowing the contractor's staff accommodation on camps, similar to that done on Case Study 3.

13.2.6 General Recommendations

The following general recommendations, in relation to the organisation's "Contracting Out" projects, are provided:

i) The organisation should carry out a study on all existing major O & M services (in relation to operating costs, efficiency, and quality of service) to identify those areas where private sector service provision might prove to be more economical than in-house provision.

ii) Once an assessment of the present situation is completed and certain deficiencies in the present mode of operation are identified then, as an alternative option, the concerned department should be given a chance to propose solutions or ways of improving performance. This will force improvements in efficiency within the organization. Improvements that can result may include elimination of excessive staffing levels and resources; and less concern and less resistance to "Contracting Out" if the in-house team are unable to come up with the solution. Thus the benefits

of cost savings and efficiency gains expected from "Contracting Out" may be obtained without actually "Contracting Out".

iii) The organisation should establish a threshold for the anticipated cost savings as a 'buffer' (e.g. 15% - 20%), below which it is not feasible to contract out. The side effects and risks associated with "Contracting Out" may give rise to problems and hence additional cost to the organisation, leading to a reduced cost saving.

iv) Where there is a high risk of a contractor's total failure or withdrawal from a contract, especially on large camps, like that for Case Study 3, or resistance from end-users is high, the work can be split between the in-house team and the contractors. The expected benefits will not only be that the void created by the failed contractor could easily be filled by the organisation's staff, but it would also help in benchmarking the in-house activities with those of the contractor in terms of performance and quality of work.

v) The normal result of 'Contracting Out' should be the shrinkage of the overall organisation. As the administrative headache on departments is reduced e.g. Personnel (recruitment, travel, pension etc.), Stores, etc. overall restructuring of the organisation should also take place. As more services are contracted out, there would be a need to consider amalgamating the different operation and maintenance directorates.

vi) The organisation should make use of the improvements that took place on the contracted out services in improving those services that are still being carried out in-house. One important area is the computerised planned preventive maintenance programmes already installed on the O & M and MSB&C projects.

vii) The organisation has recently contracted out the O & M services of newly constructed facilities/camps. The experience with these new facilities has shown that it is easier to contract out new services in comparison to existing services, due to that the concern and complications in relation to existing staff issues are less in the case of new services, as they do not involve existing staff. It is the author's opinion that the organisation should not carry out operation and maintenance services of new facilities and camps in-house, but should endeavour to group together sizeable new facilities and contract out their O & M services to outside contractors.

13.3 Summary

Table 13.1 presents a summary of the evaluation of "Contracting Out" projects in the organisation in the form of a brief SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats).

Table 13.1 SWOT Analysis of "Contracting Out" Projects in the Organisation

Strengths	**Weaknesses**
Reduces operating costs Government encouragement of private sector participation and top management commitment. Improved efficiency and productivity. Has the potential of improving the quality of services provided to the end-users. Minimal side effects on the organisation's existing staff due to commitment of organisation to protect the interest of its staff. Helps the organisation in becoming more transparent in its operations and in getting rid of restricted practices. Improves Planned Preventive Maintenance programmes leading to prolonged life of facilities and equipment. High participation from private sector leading to competitive price for services. Majority of the perceived disadvantages and risks have not taken place.	Lack of awareness on "Contracting Out" leading to delays and misconceptions. Lack of clear procedures through out the stages of implementation due to absence of a focal department responsible for privatisation projects. Supervision and monitoring difficulties due to supervisors' lack of contract management skills and monitoring procedures. Reliance of private sector on expatriates workforce in the majority therefore affecting the national economy. Low quality of services in areas where technical expertise of contractor is not up to expectations.
Opportunities	**Threats**
Can be extended to other services and camps within the organisation. Good basis for technology transfer to the activities of the organisation and training of Omani local staff. Should create job opportunities for local people in the private sector. Helps the organisation in filing vacant posts and Omanising existing expatriate positions. As the organisation is becoming more experienced with the process implementation problems are becoming less. Computerised PPM programmes can be applied to other locations within the organisation.	Loss of in-house expertise especially at time of emergencies or after total failure by contractor having to go back to in-house provision. Escalation of contract price at time of re-tender leading to increased costs to the organisation i.e. impersistance of cost savings, although research has shown that this has not taken place yet. Security risks if no risk assessment is done before "Contracting Out". Resistance to change if transparency is not improved at all stages.

In light of the above SWOT analysis, it is clear that the strengths and opportunities of the organisation's "Contracting Out" projects outweigh the weaknesses and threats. Their potential contribution to resolving the organisation's challenges by reducing operating costs, improving efficiency and productivity cannot be overstated. "Contracting Out" projects could, if applied appropriately, transform the way the organisation is operating to become a more efficient and effective organisation.

CHAPTER 14

CONCLUSIONS AND SUGGESTIONS FOR FURTHER STUDIES

Chapter 14

CONCLUSIONS AND SUGGESTIONS FOR FURTHER STUDIES

14.0 Introduction

Privatisation through "Contracting Out" is an area where the author's organisation has been actively engaged over the last decade. The organisation has faced many challenges, foremost of which are budgetary constraints on the provision of support services to its clients. "Contracting Out" has proved to be the most viable alternative to in-house provision. The process has been a fundamental change to the way the organisation works and in the way services are provided to its clients (end-users). Hence, it was a valuable exercise to undertake an analysis of these experiences so that conclusions could be made about their effectiveness in meeting the set objectives, based on initial perceptions, and delivering improved services to the clients.

This research has looked at "Contracting Out" projects at the author's organisation and has evaluated their effectiveness in terms of achieving their objectives. This chapter aims at presenting the conclusions of the study, and highlighting areas for further research.

14.1 Conclusions

14.1.1 Motivating Factors

The research findings have provided an in-depth account of the motivating reasons and the perceived advantages that made the organisation consider "Contracting Out" its in-house services.

Despite the many motivating reasons and perceived advantages found by this research, the need to affect cost savings into its operating costs was the overriding factor for the organisation to consider "Contracting Out". The organisation has, in recent years, been suffering from budgetary constraints, exacerbated by progressive annual budget reductions; meanwhile a simultaneous increase in its operation and maintenance

responsibilities are taking place. Hence, the budgetary constraint was the main challenge that the organisation has faced in providing support services to its clients.

The organisation needed therefore to consider alternative ways of services procurement in order to explore ways to rationalise its limited resources. It was believed that 'Contracting Out' offered a viable option for achieving cost savings that could be used for maintaining additional installations/facilities.

The other major motivating factors this research identified include; improvement in the efficiency of operation and maintenance activities, the need to conform to current government policy of privatisation and the need to improve the quality of services provided to its clients.

14.1.2 "Contracting Out" Project Implementation

Since 1993, the organisation implemented several "Contracting Out" projects that moved the provisions of services from the hands of its direct in-house staff to private contractors' hands.

The three projects selected for this study covered a variety of sizeable and unique "Contracting Out" projects. Each project included services that were different from each other but in essence were representative of the types of services the organisation provides to its clients. Hence, the selected projects provided a holistic view in assessing the organisation's previous and current "Contracting Out" experience.

Based on the assessment carried out for the three case studies, the author has been able to identify areas where implementation problems took place at the different stages of project execution. The aim of this was to recommend ways of improving the present system for more effective implementation.

The majority of problems encountered were due to the absence of clear procedures for the different stages of the process and the lack of a department with specific responsibility for the pre and post contract activities. The lack of procedures, coupled with the lack of transparency in relation to the objectives of "Contracting Out" and the repercussions for existing staff resulted in some resistance to the change from in-house

service provision to private contractor provision. This resistance to change was exemplified by the lack of proper co-ordination and co-operation at pre tender stage, during the collection of necessary information, and at post contract stage during the hand over stage to the contractor and the contract execution.

Unclear requirements and some vague provisions in the contract documentation led to contractual disputes between the organisation and the contractors at the contract execution stage.

Difficulties in relation to contract supervision and monitoring of contractors' activities were a major area highlighted by this research as needing specific attention. The majority of the supervision team members appointed lacked the contractual management skills. The result was poor communication with the contractor's staff and delays to the initial stages of the projects.

14.1.3 "Contracting Out" Effectiveness

An evaluation framework for the effectiveness of "Contracting Out" in meeting the organisation's objectives was developed based on the literature review and the findings in Chapter 6 on the motivating reasons and perceived advantages of "Contracting Out".

The cost effectiveness objective was achieved on all three case studies, although the initial single source contract of Case Study 1 was more expensive than in-house provisions. The organisation accrued cost savings of between 19.5% and 27% on the projects studied. The actual value of cost savings achieved varied from one project to another depending on the type of services. The cost savings were found to be mainly concerned with manpower, and its associated costs, and were therefore higher on projects where the manpower numbers were high. The investigation concluded that the organisation was successful in achieving savings in its operating costs. The cost savings were used for both: (a) maintaining and operating additional installations and facilities, and (b) in upgrading its existing infrastructure and resources.

The findings from the three case studies show that, for this organisation, the private sector is more efficient than the government sector, although efficiency was not evident

on the initial contract of Case study 1. There was a clear cut conclusion that the efficiency objective was achieved on Case Studies 2 and 3. This efficiency was primarily the result of more efficient utilisation of resources.

The achievement of improved quality of service varied from one project to another. While it could clearly be concluded that the quality of service improved for Case Study 2, quality did not improve for the initial single source contract of Case Study 1. On Case Study 3, although quality of service was overall either maintained or improved, the quality of repair work did not improve for all areas of maintenance activity. What this research has shown is that the quality of service varies from one project to another and depends on the nature of the facilities. Certain elements like the quality of contractor's staff, his resources and performance have a major impact on the quality of service.

The effects of "Contracting Out" on existing staff were significant in Case study 1, being the first project the organisation embarked on. This research found that these effects were minimal on the subsequent Case Studies 2 and 3. What this research has shown is that these effects were reduced as the organisation became more experienced with the "Contracting Out" process. The organisation exerted commendable efforts in protecting the interest of the affected staff through maximum flexibility in the re-deployment proposals and ensuring minimal effects as a result of the change. "Contracting Out" was found to transfer jobs for Omanis from the government sector to the private sector and hence in the long term privatisation will assist in the achievement of government Omanisation targets.

Overall it can be concluded that "Contracting Out" has been substantially effective in achieving the majority of the organisation's objectives, especially those related to cost savings, efficiency and quality of service. Many difficulties for the organisation in relation to Case Study 1 have been removed as the majority of roads have been transferred to the relevant government department. There are clear indications, as far as the remaining portion of the contract scope of Case Study 1 is concerned, that overall effectiveness is now achieved, to the extent that this contract was recently (2004) approved for a three years extension.

14.1.4 Implications for Improving Present Systems and Procedures

The research has shown that the organisation learnt major lessons from the experience it gained from Case Study 1. These lessons were used to improve implementation in the subsequent projects. Case Studies 2 and 3 also provided new lessons and a different set of implementation problems as a result of the varying nature of services and type of facilities included in the scope of works. The research showed that the organisation has developed extensive experience in implementing "Contracting Out" projects. The organisation needs to capitalize on the experience gained by structuring transparent procedures and guidelines for successful implementation of its future "Contracting Out" projects, which incorporate the lessons learned.

This research has established that the present "Contracting Out" system and procedures can be improved and made more effective as discussed in detail at Chapter 13. The research has also shown that there is room for improving the management of "Contracting Out" projects.

In order for the process to be successful top management has to be committed to it, and the organisation's board of directors and other services managers have to look at it with an open mind to explore alternative ways of procuring the required services. "Contracting Out" should not be perceived as a threat that leads to loss of power, but as an opportunity to improve the way the organisation is currently operating.

The solution to many of the implementation difficulties faced by the organisation, and an important ingredient for success in its search for cost effectiveness and efficiency, is the need to manage change from in-house provisions to private sector provisions. This change management can be achieved by having clear requirements, clear procedures and transparency at all stages of the process. The involvement of all stakeholders, educating all concerned, whether in-house or clients (end-users), and showing high consideration to existing staff issues is a major factor in achieving the benefits of the "Contracting Out" process. In order to arrive at an accurate anticipated cost savings estimate, the feasibility study should be based on accurate data in relation to manpower, plant, equipment and actual materials expenditure. Actual staff deployment should take place as assumed by the feasibility study for the anticipated cost savings to take place.

Having experienced, contractually skillful and well trained supervision team to monitor contractors' activities and manage the new process cannot be overstated.

14.1.5 Concluding Remarks

As the organisation proceeds further with its present search for efficiency and savings in its operating costs it is expected that further "Contracting Out" projects will be proposed in the near future. While more "Contracting Out" projects are likely to be awarded the organisation size is undoubtedly going to be significantly reduced, but without compromising its strategic role in main services provision to its clients. The expected shift would be from services provider to services supervisor.

The projects, both major and minor, that the organisation has implemented following the "Contracting Out" method of privatisation provide a solid base for further detailed studies about "Contracting Out" other services in the future. The criteria should be a progressive and evolutionary approach towards privatisation.

"Contracting Out" the organisation's operation and maintenance services proved to be a feasible way to resolve many of the challenges faced by the organisation. In light of the continued pressure on its limited budget and the scarcity of skilled local manpower "Contracting Out" has proved to be a feasible approach to overcome budgetary constraints and existing inefficiencies.

However, "Contracting Out" is not the panacea of all ills the organisation has been facing. Improving in-house efficiency, making use of the lessons learnt from "Contracting Out" projects is a realistic and practical route to improve the present operating system.

14.2 Suggestions for Further Research

14.2.1 General

This research produced findings in relation to government services (operation and maintenance services) that have not previously been thoroughly studied. The projects

studied provided different and new lessons as they are both unique and were implemented for the first time in the organisation; hence, this research provides additional knowledge on the "Contracting Out" process.

Previous studies on similar government services, although accumulated over the years, have not been based on an in-depth study of particular case studies. Detailed "before and after" studies have not been carried out in the manner undertaken in this research.

14.2.2 Further Studies

One of the weaknesses of this research, due to its qualitative nature, is that no statistical tests were used to evaluate the effectiveness of "Contracting Out" in the organisation. This is mainly due to that the requirement of the PhD by Portfolio puts a ceiling of three projects which does not provide the necessary sample size for any statistical generalisations to a larger population of cases. No empirical work has also been carried out and presented regarding the extent and results of "Contracting Out" in Oman as a whole. This research can be extended to investigate a meaningful sample size of similar contracted out government services in Oman. This would result in a quantitative analysis about the overall effectiveness of "Contracting Out" in Oman. The effectiveness evaluation framework developed for this research can be used as a model to assess the effectiveness of other contracted out projects in the whole of Oman.

The criticism that the price of contracted out services increases at the time of contract extension, or re-tendering, was not found to be valid in this research. Both extended and re-tendered contracts have so far resulted in a lower price. However, there will be a requirement to further study the evolution of "Contracting Out" over time, to establish if the actual cost savings identified by this research persist over time. This study should be carried on all contracted out services within the organisation following a similar methodology to that developed by this research.

The quality of services after "Contracting Out" has been subject to different findings in this research with lack of in-depth data on Case Study 1. In order to have a better overall evaluation of quality of service after "Contracting Out" within the organisation,

a study is required involving all "Contracting Out" projects in the organisation following similar methodology developed by this research using statistical tests.

The social implications of "Contracting Out" on existing staff are a major concern of privatisation opponents. Based on the findings of this research these implications are not significant, at least for the three case studies. However, a further study is required on this issue for contracted out services in Oman to arrive at the real social implications of privatisation on existing Omani staff.

Privatisation through "Contracting Out" in the organisation proved to be helping Omanisation in the private sector, at least on the basis of this research. A further study is needed into the effects of privatisation on Omanisation in the whole of Oman employing a larger number of cases of other government organisations' already contracted out services.

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APPENDICES

Appendix A

Questionnaire: Stage 1 Exploratory Interviews

QUESTIONNAIRE
STAGE 1 - EXPLORATORY INTERVIEWS

OBJECTIVES

- To establish the motivating reasons and the perceived advantages for considering privatisation (contracting out) in the organisation.
- Identification of existing (or perceived) faults or weaknesses in the original mode of operation.

1.0 Preliminaries

1.1 Name of person interviewed
.....

1.2
Position.....

1.3 Department
.....

1.4 Date/Time of interview .....
.....

1.5 Have you been involved with contracting out projects within MODES:

Yes ☐ No ☐

1.51 If yes, please specify:

a)
b)
c)

2.0 Motivating Reasons for contracting out

2.1 What do you think are the motivating reasons for considering contracting out in the organisation?

2.2 Which of the above reasons you consider to be the main drive for such a move?

3.0 Advantages and disadvantages of contracting out

3.1 What do you think are the potential advantages of contracting out?

3.2 What are the potential disadvantages of contracting out?

Appendix B

Questionnaire: Stage 2 In-depth Interviews

Questionnaire
Stage 2 in-depth interviews

Case Study 2 (O & M)

OBJECTIVES

To identify shortfalls in procedures

To establish implementation problems/difficulties during mobilisation and contract operation stage.

1.0 Preliminaries

1.1 Name of person interviewed...

1.2 Position.....

1.3 Department .....

1.4 Date/Time of interview ....

1.5 Involvement .....

2.0 Procedures of contracting out

Based on your experience with the O & M contract please answer the following questions:

2.1 Do you believe that procedures for 'Contracting Out' are clearly established in the organisation?

☐ Yes ☐ No

2.2 Are concerned people involved from out set in the particular 'Contracting Out' project?

☐ Yes ☐ No

2.3 Are affected staff fully briefed about the move and notified of what might happen to them as a result?

☐ Yes ☐ No

2.4 Do you believe that the objectives of 'Contracting Out' are transparently announced?

☐ Yes ☐ No

2.5 Any other comments on 'Contracting Out' in the organisation (please state)

.....

.....

3.0 Tender/Contract documentation

3.1 Were you involved in the preparation of scope of work? What do you think about its clarity?

3.2 Please give your comments on clarity and comprehensiveness of the Tender/contract Documents?

3.3 Were you involved in the technical assessment of submitted bids? Did you have any difficulty in the assessment?

3.4 would you prefer to see an assessment/evaluation criterion clearly established in the Tender Documents?

3.5 Did you have difficulty reading and understanding contract documents?

3.6 Did you have any un-clarified contractual issues during mobilisation and contract execution stage?

3.7 Do you think that there are sufficient monitoring procedures laid down in the contract documents?

3.8 Any other/additional monitoring procedures introduced by you or your staff at Wudam unit?

4.0 Supervision

4.1 Did you face any problems in supervising contractor's activities? Any problems of overlapping in your duties with those of contractor's supervision staff?

4.2 Did you have any problem dealing, co-ordinating or communicating with the contractor's staff during the very initial stages of the contract?

4.3 Did you find the company to be co-operative?

4.4 Did you have any major disputes with the contractor on any issues of significance?

5.0 Mobilisation stage

5.1 Did you encounter any problems during selection and interviewing contractor's staff?

5.2 There was a problem with certain staff proposed by the contractor during this stage which meant that certain number of MODES staff were retained for some time until contractor's staff took over fully. How many did you have to retain? In what post? And for how long?
(Ref. Min. number 187 on 31/1/00)

5.3 How many of contractor's staff were rejected? For what reason? What was the quality of replacement?

5.4 Any problems during joint inspection - handing over to contractor? I.e.How did the handing over phase go?

5.5 Any problems to do with gate passes or security issues? (In accordance to minutes dated 17/1/2000 there was a delay in issuing gate passes) (How was problem of trade in Labour card not matching actual trade resolved?)

5.6 Did you notice any resistance against 'Contracting Out' the services from in-house team or end user?

6.0 Operation stage

6.1 How did you find the quality management system installed by contractor? Is it clear, effective and understood? How useful has it been?

6.2 What is the system followed in receiving Rds, complaints etc...? If it was different to the one before the contract, was the end user notified?

6.3 Do you think that you have benefited from company's expertise and specialism?

6.4 Was the company flexible during the initial stage of the contract and thereafter?

6.5 Did the contractor suggest any improvements in your section of O & M activities or any improvement to the plant?

6.6 Expenditure of spares was high during the first year, please state what you believe to be the reason? Did it decrease for the 2nd and 3rd year?

6.7 Minutes of meeting (2/2002) dated 20th March 2002 - expenditure on spares 1999-2001 is not encouraging - What actions are being taken to minimize expenditure on spares, consumables etc..

6.8 What is the procedure followed for checking/verifying contractor's requests for new spares, chemicals etc...

6.9 Do you believe that company was overdoing demands for spares etc? (I.e. tends to change parts without attempting to repair? Was their advice on spare replacement genuine?

6.10 Where there any delays in receiving spares from main stores? Any complaints received from BEC? (Same ref.)

6.11 A major A/C replacement work was carried out during the first year of the contract, how did that affect the operation of the company? Do you think the company benefited? Did the action make life easier for BEC? **(A/C section only)**

6.12 Did you find the computer maintenance program provided by BEC to be useful? Any problems in implementation?

6.13 Did contractor's staff violate any of the regulations/rules for working on MOD properties? (E.g. misuse of facilities, negligence, use of GSM in offices etc.)

6.14 Was there any problem in handing over RO Plant to BEC?

6.15 MSF plant was repeatedly shut down for snag rectification? Why? Was the company the cause for any delay? (Ref. Min. dated 24/7/01)

Questionnaire
Stage 2 in-depth interviews

Case Study 3 (MSB&C)

OBJECTIVES

To identify shortfalls in procedures

To establish implementation problems/difficulties during mobilisation and contract operation stage.

1.0 Preliminaries

1.1 Name of person interviewed.....
1.2 Position.....
1.3 Department .....
1.4 Date/Time of interview ....
1.5 Involvement.....

2.0 Procedures of contracting out

Based on your experience with the civil maintenance contract (MSB&C) please answer the following questions:

2.1 Do you believe that procedures for 'Contracting Out' are clearly established in the organisation?

☐ Yes ☐ No

2.2 Were you involved from out set in the civil maintenance (MSB&C) 'Contracting Out' project?

☐ Yes ☐ No

2.3 Were affected staff fully briefed about the move and notified of what might happen to them as a result?

☐ Yes ☐ No

2.4 Do you believe that the objectives of 'Contracting Out' are transparently announced?

☐ Yes ☐ No

2.5 Do you have any comments on 'Contracting Out' procedures (please state)

.....
.....
.....

3.0 Tender/Contract documentation

3.1 Were you involved in the preparation of scope of work? What do you think about its clarity?

3.2 Please give your comments on clarity and comprehensiveness of the Tender/contract Documents?

3.3 Were you involved in the technical assessment of submitted bids? Did you have any difficulty in the assessment? If you were not involved please state why?

3.4 Would you prefer to see an assessment/evaluation criterion clearly established in the Tender Documents if you had to carry out the technical assessment?

3.5 Did you have difficulty reading and understanding contract documents?

3.6 Did you have any un-clarified contractual issues during mobilisation and contract execution stage?

3.7 Do you think that there are sufficient monitoring procedures laid down in the contract documents?

3.8 Any other/additional monitoring procedures introduced by you or your staff?

4.0 Supervision

4.1 How many people were supervising the in-house activities before 'Contracting Out' and how many now? Any comments on the number of supervisors after 'Contracting out'?

--- --- ---

4.2 Did you face any difficulties/problems in supervising contractor's activities? Any problems of overlapping in your duties with those of contractor's supervision team?

4.3 Did you have job descriptions as to your roles and responsibilities in managing/supervising activities of contractor?

4.4 Did you as a supervisor have any problem dealing, co-ordinating or communicating with the contractor's staff during the very initial stages of the contract and thereafter?

4.5 Did you find the company to be co-operative?

4.6 Did you have any major disputes with the contractor on any issues of significance?

5.0 Mobilisation stage

5.1 Please explain the method used to withdraw MODES staff from the facilities and how long did that take?

5.2 Did you encounter any problems during selection and interviewing contractor's staff?

5.3 How many of contractor's staff were rejected? For what reason? What was the quality of replacement?

5.4 Any problems during joint inspection - handing over to contractor? I.e.How did the handing over phase go?

5.5 Was there any problem to do with gate passes or security issues? (How was problem of trade in Labour card not matching actual trade resolved?)

5.6 Was the contractor properly introduced to the different parties of concern to him including the end user?

5.7 Did you notice any resistance against 'Contracting Out' the services from in-house team or end user?

6.0 Operation stage

6.1 There was a maintenance team retained for refurbishment work after the services were contracted out. How many were they and for how long? What was the reason behind such a decision?

6.2 How many Omani staff provided by the company in the 1st year and was that increased in the following years?

6.3 Was there any overlapping between responsibilities of contractor and those of other departments within MODES (e.g. SSD, D Log etc.)?

6.4 Some buildings required major refurbishment before the contractor could take them over. Please elaborate on what happened to these buildings at hand over stage and how they were refurbished?

6.5 There were some outstanding RDs at hand over date. Who has done these, MODES or the company?

6.6 Any quality management system installed by contractor? Is it clear, effective and understood?

6.7 Did the company submit quality control plan as per contract requirement? How useful was it?

6.8 What is the system followed in receiving Rds, complaints etc...? If it was different to the one before the contract, was the end user notified?

6.9 How many subcontractors the company is using on this contract and for what work?

6.10 When was the computerised PPM program fully operational? Did you have any problems using it? Did you find it useful? Has it been linked to MODES computers?

6.11 Do you think that you have benefited from company's expertise and specialism?

6.12 Was the company flexible during the initial stage of the contract and thereafter?

6.13 The company carried out some Minor new works. Has the company been using additional staff or making use of the staff assigned for the routine maintenance contract?

6.14 Did the contractor suggest any improvements in the maintenance activities or any improvement to the plant (A/c)?

6.15 What do you think are the security implications as a result of bringing private sector companies to MOD camps?

6.16 How does expenditure of materials/spares in the first year, compare with that before 'Contracting Out'? If more please state what you believe to be the reason?

6.17 What is the procedure followed for checking/verifying contractor's requests for new materials and spares?

6.18 Do you believe that company has been overdoing demands for materials/spares etc? (I.e. tends to change materials/parts without attempting to repair? Was their advice on spare replacement genuine?

6.19 Was there any delay in receiving materials/spares from main stores? Any complaints received from the contractor (ZK)?

6.20 What is the procedure followed for ordering MNWs and how often is the contractor ordered Minor works and up to what level? Any contractual procedures followed (e.g. compl. Cert. EOM etc.)?

6.21 Did contractor's staff violate any of the regulations/rules for working on MOD properties? (E.g. misuse of facilities, negligence, use of GSM in offices etc.)

6.22 Please provide performance indicators after 'Contracting out'. (i.e. comparison of number of repair demands executed in a month).

6.23 How did the last VVIP visit go and how was the performance of the contractor?

6.24 There was a storm during the month of April. How was contractor's response to the repair of damage?

6.25 How are new buildings handed over to the contractor? What is the basis used for costing such additional buildings?

7.0 Comments

7.1 Based on your experience on the contract is company's performance improving?

7.2 Please comment on the improvements that took place in the maintenance services after 'Contracting Out'? (PPM, Quality, efficiency etc...)

7.3 Based on your experience on the contract are private sector companies more efficient than in-house direct labour?

7.4 Please state the difficulties you have encountered in supervising the maintenance contract.

7.5 Please comment on the future of 'Contracting Out' in the organisation.

THANK YOU VERY MUCH FOR YOUR TIME

Appendix C

Questionnaire: Quality of Service Interviews

QUESTIONNAIRE
CASE STUDY 2 (O & M)

QUALITY OF SERVICE INTERVIEW

Position of Interviewee:
Date and time of interview:

1. *What is your opinion on Contracting out the O & M Services on the base? Good thing – Bad Thing, Why?*

2. *How do you value the quality of service after contracting out?*

   Better Worse no change

   Availability of service -

   Number of breakdowns

3. *Is response time to emergencies quicker after contracting out?*

4. *Is duration of breakdown less after contracting out?*

5. *Did you find the company to be co-operative?*

6. *Were they there with the right staff when you needed them? (Especially for A/C)?*

7. *When were you introduced to the company?*

QUESTIONNAIRE
CASE STUDY 3 (MSB&C)

QUALITY OF SERVICE INTERVIEW

Position of Interviewee:
Date and time of interview:

1. What is your opinion on Contracting out the maintenance services on the camp?

Bad thing to do? Why?

Good thing to do? Why?

2. How do you generally value the quality of service after contracting out?

Better Worse No change

Availability of service
Number of breakdowns
Number of complaints

3. Is response time to normal service demands quicker after contracting out?

Yes No Same

4. Is response time to emergencies and after working hours service demands quicker after 'Contracting Out'?

Yes No Same

5. How do you value the average repair time after 'Contracting Out'?

More Less Same

6. How do you value the average time between breakdowns after 'Contracting Out' i.e quality of repaired items?

More Less Same

7. Did you find the company to be co-operative?

Yes *No*

8. Were they there with the right technical staff when you needed them?

Yes No Some time

9. When were you introduced to the company?

Appendix D

A Sample of Excel Worksheets

Operating Costs Pre-'Contracting Out' (Baseline Calculation)

COST ELEMENTS	RO
a) Manpower and Manpower related	
Salaries	
Overtime	
Pensions (Omanis only)	
Travel (expats only)	
Medical / Health	
Catering subsidies	
Accommodation	
Hired labour	
b) Other costs	
Vehicles	
Total annual operating cost (Baseline)	
Total operating cost for 4 years	

ANTICIPATED COST SAVINGS PRE-'"Contracting Out"'

Total operating cost over the 4 years	
Accepted tender figure after revision and negotiation	
Anticipated saving over the 4 years contract	
Anticipated cost saving for 1 year	
Percentage saving	

Operating Costs Post 'Contracting Out'

COST ELEMENTS	RO
a) Manpower and Manpower related	
Capitation rates)	
Overtime	
Pensions)	
Travel (expats only)	
Medical / Health	
Catering subsidies	
Accommodation	
Hired labour (unchanged)	
b) Other costs	
Vehicles	
Total annual operating cost (Adjusted Baseline)	
Total operating cost for 4 years	

Actual cost savings

ACTUAL COST SAVING IN YEAR 1	
	RO
Annual operating cost 'Contracting Out' (adjust. baseline)	
Actual amount of money paid to contractor in year 1	
Less: Cost of supernumerary staff in year 1	
Less: Cost of retained staff	
Actual cost saving in year 1	
Percentage saving	

ACTUAL COST SAVING IN YEAR 2	
Annual operating cost 'Contracting Out' (adjust. Baseline)	
Actual amount of money paid to contractor in year 2	
Less: Cost of supernumerary staff in year 2	
Less: Cost of retained staff	
Actual cost saving in year 2	
Percentage saving	

ACTUAL COST SAVING IN YEAR 3	
Annual operating cost 'Contracting Out' (adjust. Baseline)	
Amount of money to be paid to contractor in year 3	
Less: Cost of supernumerary staff in year 3	
Less: Cost of retained staff	
Actual cost savings in year 3	
Percentage saving	

ACTUAL COST SAVING IN YEAR 4	
Annual operating cost 'Contracting Out' (adjust. Baseline)	
Amount of money to be paid to contractor in year 4	
Less: Cost of supernumerary staff in year 4	
Less: Cost of retained staff	
Actual cost saving in year 4	

Percentage saving	
ACTUAL COST SAVING OVER THE 4 YEARS	
Total operating cost for 4 years	
Total actual amount of money paid to contractor over the 4 years	
Less: Cost of supernumerary staff over the 4 years	
Less: Cost of retained staff over the 4 years	
Total actual cost savings over the 4 years	
Percentage saving	

Case Study 2 worksheets

MANPOWER OPERATING COSTS PRE CONTRACTING OUT (O & M Project)

S.NO	NUM	NAME	TRADE	GD	SRVD	AGE	COST RO	REMARKS	CATEGORY Y	CATEGORY X	TOT
1									1		
2									1		
3									1		
4									1		
5									1		
6									1		
7									1		
8									1		
9									1		
10									1		
11									1		
12									1		
13									1		
14									1		
15									1		
16									1		
17									1		
18									1		
19									1		
20									1		
21									1		
22									1		

SURPLUS STAFF

TRANSFERRED STAFF

OTHER RANKS

Operating Costs Pre-'Contracting Out' (REVISED FEASIBILITY STUDY): Baseline Calculation

COST ELEMENTS	RO
Direct manpower costs including overtime**	
Indirect manpower costs (10%)	
Materials	
Vehicles/plant (renewals)	
Vehicles/plant (running costs)	
Current painting contract	
Hired labour	
Total annual operating cost (Baseline)	
Total operating costs for 4 years	
ANTICIPATED COST SAVINGS PRE-'Contracting Out'	
Total operating costs over the 4 years	
Acceptable tender figure	
Anticipated cost saving over the 4 years	
Anticipated cost saving for one year	
Percetage cost saving	

Operating costs post 'Contracting Out'

COST ELEMENTS	RO
Direct manpower costs including overtime	
Indirect manpower costs (10%)	
Materials	
Vehicles/plant (renewals)	
Vehicles/plant (running costs)	
Current painting contract	
Hired labour	
Total annual operating cost (Adjusted Baseline)	
Total operating costs for 4 years	
ANTICIPATED COST SAVINGS Post-'Contracting Out'	
Total operating costs over the 4 years	
Contract value	
Anticipated cost saving over the 4 years	
Anticipated cost saving for one year	
Percentage cost saving	

Actual cost savings

Year 1

Adjusted baseline
Amount of money paid to contractor

Less
a) cost of 26 staff retained against expatriates
b) cost of 6 supernumarary staff
c) cost of 5 staff against unproductive labour
d) cost of 1 no supr
e) additional expenditure on materials
f) additional expenditure on painting

Actual cost saving for Yr 1

Percenatge cost saving

Year 2

Adjusted baseline
Amount of money paid to contractor

Less
a) cost of 16 staff retained against expatriates
b) cost of 3 supernumarary staff
c) cost of 5 staff against unproductive labour
d) cost of 1 no supr
e) additional expenditure on materials
f) additional expenditure on painting (Budget)

Actual cost saving for Yr2

Year 3

Adjusted baseline
Amount of money paid to contractor _____

Less
a) 50% of cost of 16 staff retained against expat
b) cost of 1 no. superv
c) additional expenditure on materials
d) additional expenditure on painting (Budget) _____
Actual cost saving for Yr 3
Percenatge cost saving

Year 4

Adjusted baseline
Amount of money paid to contractor _____

Less
a) cost of 1 no. superv
b) additional expenditure on materials
c) additional expenditure on painting _____
Actual cost saving for Yr 4
Percenatge cost saving

Total cost saving for 4 years
percentage cost saving

MANPOWER EXPENDITURE -MSB&C Project

PRE-'Contracting Out' REVISED FEASIBILITY STUDY

S.NO	NUM	NAME	TRADE	GD	SRVD	AGE	COST RO	REMARKS	CATEGORY Y	CATEGORY X	TOT
RETAINED STAFF											
OTHER RANKS											
1									1		
2									1		
3									1		
4									1		
5									1		
6									1		
7									1		
8									1		
9										1	
10										1	
									8	**2**	**10**
11									1		
12										1	
13									1		
14									1		
15										1	
16									1		
17										1	
18										1	
19									1		
									5	**4**	**9**